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Tendencies in Recent Economic Thought

Lectures delivered as Sir Kikabhai Premchand Reader, 1934, to the University of Delhi

BY

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definitely dead. A new system is being slowly built on the debris of the old, but its outlines are not yet clear.

Much of the most valuable material on these two tendencies is in European languages other than English, and I hope to be of some assistance to students in interpreting it.

Apart from the tendencies I have mentioned, there is a distinct American trend, called Institutionalism. And we are also interested in the development of Indian economic thought, though it shows no theoretical trend.

The last lecture is not concerned with any kind of trend. My excuse for including it in this series is its intrinsic interest.

INDIAN ECONOMIC THOUGHT.

The first volume of ***Die Wirtschaftstheorie der Gegenwart*** gives a general view of investigations in economic theory in different countries. Seventeen countries are included in this survey. The last chapter, contributed by Prof. Findlay Shirras, sometime Director of the Bombay Labour Office and at present Principal of Government College, Ahmedabad, deals with India.

Without much relevance to the main theme of the book Prof. Shirras reviews the development of Government of India's economic policy since 1850 in regard to agriculture, trade, industry, finance, banking, currency and prices, and the work of special committees and commissions appointed by the Government for the investigation of particular problems. The report of the Prices Inquiry Committee of 1910, of which Prof. Shirras was a member, is prominently mentioned: "*The report and statistics, in several volumes, belong to the most complete studies of prices which have recently been made in any country*"[1] (italics Prof. Shirras's). In conclusion Prof. Shirras says:

"Indian economists have by no means neglected positive, scientific studies. An exact inquiry into the facts of daily life as the foundation of every theory is perhaps the chief characteristic of present-day economic theory in India. However, the best investigations were carried out by Government officials, *e. g.* on working-class budgets, cost of living, and prices. Valuable elucidation, particularly in regard to village life, was furnished by teachers and others. Further", continues Prof. Shirras, "some publications have already found recognition in foreign countries. *The Science of Public*

(1) Wirtschaftstheorie der Gegenwart (Vienna 1927) Vol I P. [illegible]. *This work is cited later at WTG*

Finance, which appeared in 1924, and whose second edition has already been issued, is, according to Seligman (Columbia University), a remarkable work and without any doubt the best general work on this subject in the English language. Other works have also been favourably reviewed, although a critic in the British *Economic Journal* (Dec. 1925, p. 629) refers to 'the very strong political feeling which Indian writers are unable to exclude from works which should be purely scientific. Party politics, like King Charles' head, are always cropping up, with the result that a great number of books degenerate into journalism and propaganda."

Prof. Shirras thinks that this criticism goes too far, and he regards the political tendency of some of our books as a 'sign of national awakening'.

Such is the account of Indian economic thought given by Prof. Shirras in *Die Wirtschaftstheorie der Gegenwart*. He does full justice to his own work as a member of the Prices Inquiry Committee of 1910, as Director of the Bombay Labour Office, and as the author of that remarkable work, "the best in the English language" on the subject, *The Science of Public Finance*. Prof. Shirras is less than just to Indian writers. No Indian name is mentioned in the whole chapter, except, incidentally, Dadabhoy Naoraji in connection with his estimate of our *per capita* income in 1871. The reference to the political prejudices of Indian writers serves to discredit them.

Indian writers on economics have made no contribution to the theory of economics. They are largely occupied with the study of facts of economic life and practical problems. Their work is largely historical, descriptive and realistic, but as such it deserves notice. There is a Realist-Descriptive school in Europe, a brief account of which is included in Spann's *Types of Economic Theory*. The method of the Institutional School of the United States is also largely

historical and statistical. I am not suggesting that Indian economists form a 'school' in the sense of American Institutionalism, but we share the Institutionalists' dislike of theoretical discussions which have no practical utility. We attach more importance to the study of institutions in their economic bearing, *e. g.*, caste, laws of inheritance, the joint-family and religion; to the study of economic development in its historical aspects; to the study of the present and its tendencies; and to concrete problems which have arisen out of the stage of economic transition in which India finds herself and of the impact of world forces on Indian economy.

A considerable amount of work in these directions has been done by Indian economists in recent years.

The first writer who deserves to be mentioned in this connection is the well-known Poona economist, Prof. V. G. Kale. Morrison, in his *Eonomic Transition in India* (1914) refers to Prof. Kale as "a competent scholar." His competent scholarship and long record of devoted work easly give Prof. Kale the first place among Indian ecomomists. He is the author of a general work, *Indian Economics*, which has passed through eight editions, and a number of special studies of which three may be mentioned: *Indian War Finance and After*, *Dawn of Modern Finance in India*, and *Problems of World Economy*. *Problems of World Economy* shows the wide field of Prof. Kale's interest and investigations. In this work Prof. Kale examines the effect of the world depression on India, and also the general causes of the crisis. He believes in 'world economy' (*Weltwirtschaft*). World economy is not to be conceived as a mere 'collection of national economies'. It is 'an organism just as a national economy is.' [2] Prof. Kale, however, does not accept the exaggerated claims made on behalf of world economy, and he recognizes the existing conflict of forces within world economy: "On the one hand there is the unconscious, if not the conscious movement of

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forging links of international interest engendered by growing mutual contact brought about by increasing intercourse between nations, and, on the other, national and local resistance to this force inspired by the motive of self-preservation and self-improvement, which appears to be threatened by super-national activities of individuals and organised bodies bent on material gain" [3] At the present time the latter tendency is the more important. There is a rise of national economies everywhere; every country is endeavouring to become self-sufficient with the object of increasing national economic strength as against other countries through the adoption of measures which are repugnant to the spirit of world economy. One may well ask: Does a world economy still exist? Is it not completely dead? Prof. Kale dealt with this question in an interesting article entitled *Britisch-Indien und die Weltwirtschaft* which appeared in January 1933 in *Weltwirtschaftliches Archiv* of Kiel. He combated the idea that world economy had been killed by the rise of national economies: "The continued existence of world economy is essential so long as humanity does not relapse into barbarism, and rejects as useless the advances in science which have led to the development of international co-operation, and increased the welfare of nations" [4] But as the result of recent changes, both in the material world and the world of thought, the structure of world economy is changing. "The world economy of pre-war days", says Prof. Kale, " belongs to the past; a new one is taking birth."[5]

What will be India's place in the new world economy which is arising? Prof. Kale's conception is a noble and a patriotic conception. In concluding his course of Sir William Meyer lectures before the University of Madras Prof. Kale said that the East will have to find its due place in

(3) P. 70.
(4) P. 210.
(5) P. 220.

world economy, and that the communities of the East "will have to be looked upon not as subjects fit for exploitation," or "as savages, against whose invasion Western civilization must be guarded at any cost, and who must be kept in a state of economic subjection in their own and the world's best interest but as a people who are entitled to economic freedom and political liberty, as much as the inhabitants of the West'."

Prof. Kale has placed before us a noble ideal, worth striving for. Among other Bombay economists may be mentioned Prof. K. T. Shah, a man of sturdy, independent views, whose studies in finance and tariff are known to all ; Prof. Gadgil, the author of *Industrial Evolution in India* and *Industrial Evolution in Recent Times* (1929); Professors Wadia and Joshi, the joint-authors of *The Wealth of India* and *the Indian Money Market* ; and Prof. Vakil, whose special field is money and prices, but who has recently turned his attention to the study of tariff and industrial problems. Prof. Gadgil is Director of the Gohkale Institute of Politics and Economics which has brought out several short studies. One of these (by Prof. Gadgil) is devoted to Imperial Preference; another, which opens a new line of research, deals with the marketing of fruit in Poona. It is a patient, realistic study of the forces of demand and supply operating in a small field.

Dr. Gyan Chand's work on federal finance has obtained general recognition. At present he is studying the population problem. The results of the Census of 1921 were examined, among others, by Mr. Pillai and Mr. Wattal, and Mr. Wattal has re-discussed the population question in the light of recent statistics.

Agricultural problems have been examined, among others, by Prof. Radha Kamal Mukerji and Messrs. Panandikar and Iyengar. Diwan Chaman Lal's *Coolie* (two volumes) deals with Indian labour. Mr. R. K. Dass has written on factory legislation and other questions relating to labour. Mr. Shiva

Rao of Madras has practical experience of trade unionism and has contributed a most readable chapter to *India Analysed* Vol. II on the subject.

Much has been written on currency and banking. The late Prof. Chhablani's work on Indian currency needs no mention here, nor Mr. Sarma's advocacy of silver. Prof. L. C. Jain has studied the indigenous money market, and banking law and practice have been dealt with in a standard work by Principal Tannan.

Prof. P. N. Bannerji of Bengal has several works to his credit, of which two may be mentioned, his studies in taxation and *Indian Finance in the Days of the Company*.

Nor have we neglected the study of the past. Those who have done work of permanent value in this field are Drs. Shafaat Ahmad Khan, Bal Krishna and I. Durga Parshad. Of special importance are books dealing with the remote past: Mr. A. C. Das's *Rigvedic Culture* and Mr. Majumdar's *Corporate Life in Ancient India*.

Among studies by Indians published in foreign languages other than English two may be mentioned. Prof. Jafer Hasan of the Usmania University has written on the question of Indian poverty (*Die Armut Indiens*). He finds that the causes of Indian poverty are both social and political. He thinks that hand-industries will solve the problem of unemployment, but he does not under-estimate the difficulties in the way of their revival. Dr. Sudhir Sen examines the causes and effects of the flow of gold to France in his *Die Goldbewegungen nach Frankreich in den letzten Jahren;* in a lengthy article in *Weltwirtschaftliches Archiv* of Kiel for March 1934 he discusses the export of gold from India.

The foregoing account of the work of Indian economists is necessarily incomplete. It was not my object to supply any kind of bibliography. I have mentioned only the leading writers to indicate the trend of our work.

The scope of our investigations, as you will have gathered, is a wide one. It embraces the whole of our economic life, both past and present. And we have concentrated attention, as I have already said, on the solution of problems—problems relating to agriculture, industry, population, trade, tariffs, taxation, currency and foreign exchanges, and those connected with economic organisation and the standard of living.

The study of economics is not very old in India. In the Punjab, till about 20 years ago, economics had no separate existence—it was studied as a part of a general course which included a considerable amount of history and politics. Now economics is one of the most popular subjects of study on the Arts side, and it exists in its own right. When I think of the development of economic studies in the Punjab I am reminded of my teacher, Mr. Manohar Lal, the first Minto Professor of Economics, Calcutta University. No one has done more to popularise economic studies and to guide them on sound lines than Mr. Manohar Lal. And though his active connection with economics teaching ceased long ago, he is still a source of inspiration to students and teachers alike.

British reviewers complain that we are unable to exclude strong political feeling from our work. Prof. Shirras ascribes this feeling to India's national awakening. In my view its causes lie deeper. They are connected, on the one hand, with the Indian view of the nature and significance of economics, and on the other with the existing economic conditions in the country.

What is the Indian view of economics?

Economics has been recently defined as the science which is concerned with ends and scarce means which have alternative uses. There is nothing new about this definition. Economics is concerned with goods (including services) whose supply is limited in relation to the demand for them. These goods are therefore relatively scarce. They have also

alternative uses—leather may be used for making boots and shoes, harness, ladies' purses etc. The use of economic goods for the satisfaction of human wants gives rise to problems which form the subject-matter of economics. Prof. Robbin's definition, however, has given rise to a controversy because it implies that economics is not concerned with material welfare. In fact Prof. Robbins says: "Whatever economics is concerned with, it is *not* concerned with the causes of material welfare as such"[6]. This may appear a startling statement, for we have been always taught to connect economic studies with material welfare. There is a reference to 'material requisites of well-being' in Marshall's well-known definition of economics. Prof. Robbins has been severely taken to task by Prof. Cannan and others for his attempt to dissociate economics from material welfare. Prof. Cannan insists that an economist should be able to say what ends are good and what ends are bad. But Prof. Robbins can reply with perfect justice that economists who have abandoned the old conception of 'productive labour' and who interpret 'productivity' as the creation of value, have no business to talk of material welfare in the same breath. For value is created also in the form of objects which demoralise and degrade human beings; a contradiction is involved in studying wealth 'as the more material side of welfare' and framing a definition of productive labour which is unrelated to material welfare.

The pure science of ends and scarce means which have alternative uses is not concerned with the causes of material welfare. It ignores the ethical quality of ends and recommends no course of action for the practical realisation of any end.

Economics in this sense, has never aroused any interest in India.

Justice Ranade, who initiated Indian economic studies, energetically protested against deductive economics. He

(6) The Nature and Significance of Economic Science, p. 9.

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insist that it is the duty of Indian economists to emphasize the Indian point of view whenever there is a danger of its being ignored in the conflict of national with Imperial interests.

I may express the hope that Indian economic studies will continue to be realistic, as they are at present. The study of facts is interesting in itself ; it has an important bearing on economic policy, which is so intimately connected with material welfare; and, finally, it has also a theoretical significance. Facts suggest theories and theories must always be tested by reference to facts. The deductive economist is apt to forget this.

Having got our facts, as many of them as possible and of as varied a character as possible, we shal proceed to examine economic theory. We may be able to suggest improvements of theory in the light of our facts.

The contemplated re-organisation of the Government Department of Statistics will facilitate our work by providing fuller and more accurate data. The work of the economist is not like that of the psychologist, who may shut himself up in his room and get all the material for his study from his changing states of consciousness. For a study of facts, and of theories based on facts, facts are essential, and in most cases the economist must depend on official ageney for collecting them. There is also another difficulty peculiar to India. Even when Government statistics exist they are not easily available to non-official writers. Most of us are not rich enough to build up our own libraries of official publications. There should at least be one central place in each Province where all official publications may be freely consulted by students and teachers of economics. Libraries in the Punjab are very inadequately supplied with official reports; this is also probably true of libraries in other Provinces. Very often we feel hopelessly stranded because the information required is not available. For example, it would be desirable to know the fluctuations of industrial wages in the major Provinces

since the Labour Commission reported. This information is unprocurable. Finding our libraries of no assistance I wrote to the Punjab Industries Department. The information supplied by the Department is not of great value. The Department is not to be blamed for it; as it wrote, "figures regarding daily wages of certain Provinces cannot be given as the requisite information is not available in their Factory Inspection reports, nor have the Inspectors of Factories concerned supplied it. In certain cases statistics for some years cannot be quoted for want of the necessary annual reports". If one were working in the India Office Library, London, a slip handed over to an attendant would bring all these reports in a few minutes.

There is a field of work in which the co-operation of many scholars is required—the study of the past. A comprehensive economic history of India from the earliest times to the present day, based on original sources, does not exist. Economic India under the Moghuls has found a historian, Mr. Moreland, but he writes with a bias.

There is valuable material of interest to students of economic history in the Dutch Records Office at the Hague. It has been little used by Indians. And there is material enough there to keep scores of Indian scholars busy for years.

It is not only desirable but necessary that Indians should write their own economic history. We have plenty of students who are prepared to work hard and who would be willing to go abroad in search of the original sources of our economic history. It is the duty of Indian universities to assist them financially. A great deal of money is being wasted on research of doubtful value. Here is a line of research which, if pursued diligently, would yield results of permanent value.

NEED FOR ECONOMIC STUDIES.

The last volume of *Die Wirtschaftstheorie der Gegenwart* concludes with a contribution by Prof. Cannan in which he complains that economic theory exercises no real influence to-day either on the masses of the population or their leaders. "We should make great efforts", he says "to explain elementary national economics to peoples, their governments and their legislators." [9]

The need for the popularisation of economic theory is still greater in India. Thousands of books on economics, dealing both with theory and its application to practical problems, are published in the West every year. Further, these books are composed in the language of the people. As the medium of instruction in Western countries is the language of the people, the Universities serve as centres for a wide diffusion of learning.

The progress of economic studies in India is hindered by several factors. The whole of our educational system is dominated by examinations, and whatever the merits of examinations, it will be admitted that they do not promote originality of thought or research. The system tends to produce a mechanical, unintelligent type of student who readily learns the views of others but who cannot think for himself. That is not how investigators are made:

از مقلد تا محقق فرق ہاست
ایں چو کوہے است واں دیگر صداست

Secondly, the medium of instruction in our Universities is a foreign language. That in itself serves to discourage thinking, for thinking in a foreign medium is enormously difficult—at least so I find it. What is worse, economic knowledge is limited to a very few, those who have received

(9) W T G. Vol. IV. P. 360.

the benefit of University education. In the West economics may be compared to a powerful beacon-light, sending out beneficent rays in all directions. In India economics is the dim light of a *chiragh* . And we have heavily guarded this light from the general public by erecting the stone walls of a foreign medium around it.

And yet there is no country where a wide diffusion of economic knowledge is more desirable in the interests of national progress and prosperity than in India. In India it is not merely the masses who require instruction in economics but also their leaders.

The study of economics, coupled with careful observation of facts, shows that economic life and development are governed by laws of universal validity. This realisation has not yet come to India.

We take a religious view of life. This has led to errors in the explanation of facts and errors in the formulation of ideals.

We have economists who believe that motives to economic activity here are different from those in the West !

When trained economists misinterpret facts, it is not surprising that leaders, who are not trained economists and who take an intensely religious view of life, should think that economic forces may be controlled by sentiment.

India has not yet become reconciled to the Western system of machine production. There are many of us who still think in terms of the *charkha* and *khaddar*. But economic forces are more powerful in their operation than sentiment. We are being forced by international competition to modernise our industries. If India is more self-dependent to-day in regard to the supply of cloth, it is due to her mill-industry. Pull down the cloth mills, and our markets will be flooded with foreign cloth again. The hope of increasing production and of raising the standard of living of the masses

does not lie in reversion to antiquated methods of production, but in a planned utilisation of our industrial and agricultural resources on the basis of the machine. It would be a happy day for India when our leaders begin to understand that movements, however selflessly led, which run counter to economic forces and tendencies, must fail.

Economics reveals the working of the same fundamental impulses wherever human society exists, and it is this which makes it possible to formulate economic uniformities or laws. At first it may seem as if economic action could not be reduced to law because of the variety of motives which influence human conduct. As a German writer humorously says: "There are men whose business plan is altered when a cat crosses their path."[10] Cats are endowed with mysterious powers in India also. And there are also businessmen whose courage would fail them if anybody violently sneezed when they were going out to do business. Buying and selling very often seem to depend on the caprice of the moment. A fleeting desire, when I am going through a bazaar, may cause me to buy grapes or oranges. And yet at the back of all seeming caprice and confusion of individual motives there are economic laws governing economic action, laws which are as true in the East as in the West.

Some of these laws relate to economic evolution, or secular changes in economic organisation. The chief features of economic evolution in India are the same as those of economic evolution in any Western country, with the qualification that India changes more slowly. And present-day India reveals the same economic tendencies as may be observed in the Western world.

That economic laws are laws of averages does not discredit economics. Recent advance in physics tends to show that even the laws of this exact science are laws of averages.

(10) Probleme der Wert-lehre (Verein fuer Sozialpolitk), Vol. I, pp. 188-189.

Twentieth century physics has abandoned the old 19th century mechanical conception of the universe based on causality. This result is ascribed to Heisenberg's Law of Indeterminacy. It is the formulation of this Law in 1927 which, according to Eddington, made religion possible for a reasonable scientific man[11]. The Law of Indeterminacy has turned physical laws, which were regarded as exact in the mathematical sense, into laws of averages in the statistical sense. There is indeterminacy in the physical world because the place of a flying electron and its speed cannot be both determined with precision at the same moment. Important philosophical conclusions have been drawn from this Law of Indeterminacy.

But suppose it is found that there is a cause for every jump of the electron? The cause is being sought by eminent physicists. Further, the faith of Max Planck in causality remains unshaken. Statistical laws, this great physicist says, "are dependent upon the assumption of the strict law of causality functioning in each particular case". [12]

All this is of profound interest even to economists. If there is causality behind physical laws, there must be causality behind economic laws as well, however difficult it may be to trace it.

The idea that economic life is governed by causality, or by cause and effect, is of immense significance. The popularisation of this idea would revolutionise the outlook of the masses. This is the greatest service that economics can render to mankind, particularly to us in India where religion teaches a different view of life.

Let me give one or two examples to show how economic phenomena may be viewed in the light of the causal law.

The census returns for 1931 show as married about 57 lakhs of males and about 126 lakhs of females (including

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(11) *The Nature of the Physical World*, p. 350.
(12) *Where is Science Going?* p. 145.

widowers and widows) below the age of 15. The early age of marriage, the universality of marriage and the uncontrolled birth rate explain the peculiar movement of our population. Our population does not grow steadily but by alternate leaps. The rate of growth was 1 per cent. in 1911-21 and over 10 per cent. in 1921-31. The rapid growth of numbers in the last decade has been universally commented upon, but it should not be forgotten that during the past 60 years, from 1870 to 1930, the rate of growth in India, on account of heavy mortality in epidemics and famines, was much less than that of the whole of Europe. The figures are 33 per cent. for India and 64.3 per cent. for Europe, our population growing from 265. 1 millions in 1870 to 352.8 in 1930 and that of Europe from 307. 7 millions to 505. 7 millions. The rate of growth in India was slower than in the more important European countries with the sole exception of France.

When the percentage increase in our numbers during the past 60 years is plotted on a chart, the curve is seen to rise and fall in alternate decades and has the shape of a W; the curve for England and Wales is almost a straight line.

It is evident that the growth of numbers in India is subject to inexorable laws. The action of these laws is so reliable that we can confidently make the melancholy prediction that the rate of growth of the preceding decade will not be maintained in the present decade (1931-41), or that the growth of numbers in the coming years would be cut short by disease, or famine, or both.

These laws must be causal. There is a cause for each death, and if we knew everything we should be able to say, when an epidemic came, how many would die and which. Since we do not know all, we can state our conclusion only in general terms: In view of the customs and habits of the people relating to marriage and the existing economic conditions, India cannot bear a high rate of growth of

numbers. There is uncertainty about the individual but no uncertainty about the general result.

As I have stated above the uncertainty about the individual is due to lack of knowledge. As Max Planck suggests, the Causal Law must be at work in each particular case.

Perhaps it will be said that the example is not suitable: births and deaths are biological phenomena. They are, but they are economic phenomena as well. Births and deaths govern the supply of labour and therefore fall within the scope of economics. Secondly, births and deaths are affected by economic causes, or the conditions under which the people live and work. The growth of numbers depends not only on food supply in a narrow sense, but the quantity of wealth that a country produces annually and the distribution of that wealth.

It will be seen that the meaning of births and deaths changes when they are regarded as necessary consequences of the operation of given forces. This view of births and deaths is fundamentally opposed to that taught by religion. The economist relieves God of the responsibility for births and deaths. The place of God is taken by Law. If there is anything behind that Law, the will of God, for example, we ignore it as a superfluous hypothesis.

That life is governed by an all-pervading Law is not a new idea. It was known to Samkhya philosophers more than 2,000 years ago. And there are moments when facts of every-day life create a suspicion even in men of faith that the universe is not governed by caprice. In this connection I am reminded of a story related by the Sufi poet *Attar* :

خاست اندر مصر قحطے ناگہاں — خلق مے مردند میگفتند ناں
جملۂ ده خلق برهم مرده بود — نیم زنده نیم مرده خورده بود
از قضا دیوانۂ چوں آں بدید — خلق مے مردند نامد ناں پدید
گفت اے دارندۂ دنیا و دیں — چو نداری رزق کمتر آفریں

Of course it is an impudent suggestion: God might limit His creative activity according to *rizq*, or means of subsistence; and I suppose that is why it has been put into the mouth of a lunatic. But every species tends to increase more rapidly than the means of subsistence. It is the law of life. It lies at the root of the terrible struggle for existence, and it explains much of the poverty and suffering that we see around us. A knowledge of this law in its application to human society would bring a change in our conception of marriage. It may lead to restriction of births, or an attempt to consciously adjust numbers to means of subsistence (interpreted broadly) instead of leaving this adjustment to Nature.

The chief value of the study of economics consists in showing the action of law where chance or individual caprice seems to rule. Economics thus places a powerful weapon in our hands for fighting religious superstitions. Economics may be used as an instrument for raising the cultural level of the masses. That is why I regard it as our great misfortune that we have to teach economics in English and not in our vernaculars.

Finally, a wide diffusion of economic knowledge would make for communal peace in this country torn by communal strife. We fight about the Award, or the percentage shares of different communities in the Government. I am not interested in percentages, whether they relate to representation of various communities on legislative bodies, or in Government service. Our economic difficulties will not be solved by any scheme of communal representation, or any Communal Award, whether imposed on us by external authority or evolved by our own genius.

I am driven to this conclusion by the study of economic facts. Any one else, whether a Hindu, Mussalman or Sikh, who made a similar study, would reach the same conclusion.

I have referred to Prof. Jafer Hasan's work on Indian poverty. I do not know Prof. Jafer Hasan personally. I have never met him and I do not know what he thinks of the Award. But when both of us sit down to examine the causes of Indian peverty, we are led by facts to the same conclusions. When we agree about the causes, it is probable that we shall also agree about the remedies. That is how science and reason bring mutual understanding and peace. It is ignorance and superstition that cause misunderstandings and war.

THE AMERICAN TREND

Economics is indebted to the United States for two things, first a trend which is called Institutionalism, and second, a great experiment which is called the New Deal.

Institutionalism has enriched the nomenclature of economics. W. Mitchell, the leading representative of this school, has defined economics as the science of behaviour. Along with the science of behaviour Institutionalism has developed a welfare economics, a quantitative economics, a pragmatic economics, a non-Euclidean economics, an experimental economics, a comparative regional economics and a functional economics.

The institutionalist, as we shall see, attaches great importance to realistic studies, but he does not believe in a separate economics for each country. As Mr. W. E. Weld says: "Science assumes that law is universal in its application. There is not a separate science of economics for Japan and another for New Zealand; one for United States and another for India".[1] "There is only one science of economics", I wrote many years ago, "and it is based on the fact that human nature everywhere exhibits the same characteristics and that the chief impulses which lead to production, consumption, exchange and distribution of wealth are the same in all countries".[2]

Mr. Weld also tells us that students of different races react to economic doctrines in the same way. He has taught many races of students and he found that on controversial points they showed the same differences of opinion, and that there was "practically the same concentration on middle ground", whether one spoke of India or America.[3]

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(1) *The Trend of Economics, edited by R. G. Tugwell (New York. 1930), p. 439. This work is cited later as Tugwell.*
(2) *Essays on Indian Economic Problems, 1922, p 18.*
(3) *Tugwell p. 433.*

The reaction is the same because we have been brought up under the same economic system. But suppose Mr. Weld went to Russia to expound the economics of individualism to Russian students. Their reaction to individualism would be different from that of the Indian or the American student. The reaction of Fascist students in Italy and Nazi students in Germany to communism would be different from that of Russian students. While human nature is the same every where, different forms of economic organisation tend to produce differences in social thoughts and habits.

We may begin the study of the rich and varied American contribution to recent economic thought with Behaviourism in its application to economics.

Behaviourism arose about 1912 as a protest against orthodox psychology. The old psychology was based on the concept of consciousness. Consciousness was taken as something real, and it was conceived as a stream. Conscious activity has three forms, knowing, feeling and willing, or, in the technical language of psychology, cognition, conation and volition. Suppose while I am speaking, any one says 'Ha'! I stop. Or I also say 'Ha'! and continue. I am conscious of the interruption. I have a feeling, perhaps, of a disagreeable kind. And I consciously react to the interruption. These are the three states of consciousness of the old psychology which was taught more than a generation ago, and which is taught in our universities today, and generally with the help of the same good, old text-books. We dislike change in this country. The American attitude toward the psychology of consiousness, however, has profoundly changed. The behaviourists, led by Watson, do not recognise consciousness. Consciousness is a myth. It does not exist. What does not exist is not a proper object of study. What interests the behaviourist is not therefore the activity of a mythical consciousness, but human behaviour regarded as responses to stimuli. Consciousness he puts in the same class of objects as the soul. Now I may have

a soul. It may be the only thing in me that matters. But the soul is seen only in definite actions of a living thing. When a living thing ceases to react to stimuli it is dead.

The behaviourist's method is scientific. For all that we know there may be angels carrying the earth round the sun and the moon round the earth. But the physicist is not interested in the angels. He is concerned with motion alone, whose laws he seeks to formulate.

Economics as the science of behaviour may be interpreted both in a broad and in a narrow sense. Narrowly interpreted the economics of behaviour examines the human response to industrial stimuli. Work in a factory leaves its mark on the worker ; it moulds the worker's character. Which of the two is more alert: the ordinary machine-worker, who spends ten hours daily in feeding a machine with iron bars which are turned into tiny screws, or a hand-worker? But all work in a factory is not of a routine nature. There is work which calls for the exercise of responsibility, ingenuity and resourcefulness. The intensity of work has also to be considered. How does the average worker react when the hours of work are too long ? His attention flags and his efficiency suffers. What is the reaction when the hours of work are shorter but the intensity of work greater? What is the effect on the worker of an increase in wages, of weekly instead of monthly payment of wages, of different systems of wage payments, of working by shifts? The investigation of these problems forms the subject-matter of economics as the science of behaviour in a narrow sense. The collection of accurate and comprehensive data regarding the worker's behaviour under different conditions of work and payment is of the greatest use in fixing standards of work and payment.

In a broad sense economics studies human behaviour as responses to the monetary stimulus. All human activity is not of this nature. Economics is therefore concerned only with a particular aspect of human behaviour.

You will say that this is nothing new. The science of wealth takes note of economic activity alone. And economic activity means activity inspired by a money motive. Economics, as Marshall has taught, is a science (though not an exact one) because the economist is able to measure the motives with which he is concerned in terms of money. Money is our measuring rod.

But here Marshall stops. The behaviourist goes much further. Orthodox economics may continue to measure motives in terms of money till the end of time—in the fact that economic motives are thus measurable lies no hope of economic regeneration of the world. Behaviourism applied to economics hopes to transform both economics and the economic world.

Behaviourism has made a clean sweep of instincts. For instincts it substitutes reflex action, conditioned and unconditioned.

William James gave us a long list of human instincts, including kleptomania, covetousness, shyness, cleanliness and others. According to Watson a new-born child's equipment consists in reflex actions such as the reaction of the pupil of the eye to light, heart-beats, circulatory phenomena, sucking, tongue movement, swallowing and other mechanical actions. This is the child's 'unlearned' equipment. Unlearned reflex actions may be called 'unconditioned' or natural reflexes. Everything else the child has to learn, and the process of learning is that of forming conditioned reflexes. They are limitless.

The term 'conditioned reflex' was introduced by the Russian physiologist and Nobel Laureate Pavlov who spent a life-time in studying the flow of saliva in dogs. Very briefly, the conditioned reflex may be explained as response to a stimulus which is not natural but acquired. For example, if acid is put into the mouth of a dog there is immediately a

flow of saliva. This is unconditioned reflex action. But if a bell is rung simultaneously a sufficient number of times, the ringing of the bell alone will evoke saliva, even when no acid is put into the dog's mouth. When this happens, a conditioned reflex has been formed. Many other examples can be given. A child will take its first dose of medicine readily. But if the medicine is of a disagreeable taste, the mere sight of the medicine bottle will later cause the child to react in a manner which we all know.

All habits are conditioned reflexes. Man is a bundle of conditioned reflexes.

The discovery that responses to stimuli can be conditioned or modified by training, is of great importance. If we may assume that a child is born without any congenital tendencies toward good or evil, and that his character as a man will depend on the influences to which he is subjected and the training he receives, we can make of him what we choose. Watson has made this claim: "Give me a dozen healthy infants well-formed, and my own specified world to bring them up in, and I'll guarantee to take any one at random and train him to become any type of specialist I might select—doctor, lawyer, artist, merchant-chief and yes, even beggar man and thief, regardless of his talents, penchants, tendencies, abilities, vocations and race of his ancestors".[4] It is an ambitious claim. But Watson speaks with authority. And he must be right if human behaviour largely consists of conditioned reflexes.

The alliance of economics with behaviourism, or the treatment of economics as the science of behaviour, promises to produce fruitful consequences. We may not admit the extreme claims of behaviourism. From our point of view the disappearance of consciousness from the domain of psychology is not essential. But the fact that conditioned

(4) *Behaviourism*, by Watson, P. 104.

reflexes can be created, and that when created they are retained, is of practical value.

Pavlov would have called the phenomenon of 'untouchability' a conditioned reflex. The feeling of caste superiority is not natural. It is artificially produced. Suppose the State granted special educational facilities to 'untouchables', preferred them in matters of employment to caste Hindus, threw open all temples to them, and heavily punished all those who treated them as an inferior people. 'Untouchability' would disappear in less than a generation.

Is economic activity also a conditioned reflex? Money-making motives are not necessarily ignoble, but in most cases they are self-regarding motives. The money reflex, if we may so call it, is a product of individualism. For long ages humanity has worked and produced for money. Under a different type of economic organisation it may be possible to replace self-interest as a cause of economic activity by other motives—of service, sacrifice, and work for the pleasure of work. Behaviourism does not regard social behaviour produced by a given social system as inevitable. Modify the social system and you modify behaviour.

Even under individualism and competition non-commercial incentives to work are never wholly absent. A chapter is devoted to this subject in the *Trend of Economics.* The author, Paul H. Douglas, cites many examples of non-commercial incentives to business activity in the case of employers as well as employees. Captains of industry may be inspired by the desire to benefit humanity, the fascination of creative work, or the desire for accomplishment for its own sake. Henry Ford, as the result of personal experience, found that "Business as a mere money-making game was not worth giving much thought to and was distinctly no place for a man who wanted to accomplish anything".[5] Factory

(5) Tugwell, P. 181.

workers are induced to take a personal interest in their work by the offer of a share in profits. This is an economic incentive. But their interest may be aroused by appealing to the desire to excel. In a steel works in the United States it is stated, "The steel workers would work at a break-neck pace in order to break records and to have the privilege of hoisting over their mill the old broom-stick which was the championship emblem."[6] A review of American experience leads Mr. Douglas to the conclusion that non-commercial incentives exist in most of us, though at present they are utilised "only to a small fraction of their capacity." It is one of the problems of our social life "to offer these desires an opportunity to function for the common good and to stimulate them in that direction"[7] Mr. Tugwell, Editor of the ***Trend of Economics***, refuses to build aspirations for the economic system on Adam Smith's principle of self-love, which he calls 'the most fundamentally anti-social trait that man possesses"[8]. What is not a virtue but a vice in man cannot be turned into socially beneficial action by 'economic legerdemain.' W. Mitchell believes in the possibility of controlling behaviour. Knowledge is sought as an instrument of control. "Control", says Mitchell, "means the alluring possibility of shaping the evolution of economic life to fit the developing purpose of our race. It is this possibility of which we catch fleeting glimpses in our sanguine moments, that grips us. Always the centre of our interest lies in the changes that have taken place in human behaviour, the changes that are now taking place, the changes that may take place in the future."[9]

It is not quite clear what form of economic organisation precisely is the institutionalist's ideal. Is it socialism or fascism, or something which is neither of the two? But the institutionalist has had enough of the existing system, whose

(6) Tugwell, P. 184.
(7) Tugwell, P. 188.
(8) Tugwell, P. 408.
(9) Tugwell, P. 25.

chief motive force is money-making and which puts a higher value on individual than social welfare. He longs for something better, something romantic, something more closely approximating his ethical ideal.

The idea of public good dominates the socialist State. But even fascism makes a conscious attempt to modify social behaviour. Fascism retains the right of property, but it insists that the owner of property shall manage his property in the public interest. Individualism is not concerned with the manner in which property is used. If I own machines for making cloth, it is my choice to produce or not to produce cloth. The consumer may want more cloth but I may keep my machines idle so as to make cloth scarcer and the price higher. When I do this I inflict an injury on the rest of the community for the sake of individual gain. This is a course often adopted by combinations and monopolies to raise prices and increase profits. The fascist State reserves to itself the right to compel capital to work for public good, or it seeks to modify the action of money-making motives when their unregulated, undirected action may injure public interests.

It will be seen that when economics studies social behaviour with the ultimate object of improving it and evolving a better type of society, it ceases to be a mere science of cause and effect.

The science of behaviour may be called Institutionalism. Institutions are only a form of social behaviour. Marx regarded capital goods as crystallised labour. Institutions are crystallised social behaviour. A type of behaviour common to large number of people is social behaviour; when social behaviour remains unchanged for long ages, it forms customs and institutions.

Inheritance makes *reises*. We hold them in high esteem. *Reis* is a title of honour. It means an enviable position—

income without effort. But suppose we were taught to connect income only with labour and effort, our whole attitude toward property and inheritance may change. A new type of social behaviour may evolve and gradually crystallise into new institutions.

Institutionalism is largely a product of the economic changes during the war and post-war years.

The pre-war economic world was stable. It was not a world without movement, but such changes as took place in it were changes within the system, not changes of system. Then came the war and the post-war confusion. The world of stable money, stable exchanges, stable trade and stable incomes disappeared. Free competition was at an end. The State assumed new economic functions. In Russia the State took complete charge of economic life. Side by side with revolutionary changes in economic conditions there were political upheavals, the fall of dynasties and the rise of dictatorships. Old economic theories, based on the conception of a static society, failed to satisfy. The conviction gradually grew that economic theory must take account of change.

Institutionalism arose before the outbreak of the world economic crisis. The *Trend of Economics*, the work mostly of the younger generation of American economists who have revolted against both Classicism and Marginalism, first appeared in 1924. The crisis has further shown the inadequacy of old theories to explain new facts and the need for a new approach to the complex problems of today. The very foundations of a stable economic life have crumbled. The gold standard, a symbol of that stability, is gone. Fixed mint pars of exchange and upper and lower specie points have disappeared. After the war Gustav Cassel gave us a theory of exchanges under paper standards, the purchasing power parity theory. But this theory is inapplicable to the present world of high tariffs and national markets. More important than the

break-down of monetary systems and foreign exchanges is the disruption of production and consumption. Our own experience during the crisis has been such as to destroy all faith—or what was left of it—in individualism. America has suffered more. America suddenly fell into the abyss of poverty from a great height of prosperity. The crisis has made us poor, but then we were never rich. Try to imagine what the failure of several thousand banks within two or three years means. If you have owned shares you will understand what a fall, between June 1929 and June 1932, in the average prices of 351 industrial stocks from 191 to 34 meant to the American investor and American industry.

If American institutionalists favoured a change of ideas and systems before the crisis, they must want the change even more now. And the change has come. The New Deal is a bold attempt to re-arrange economic relationships, to re-organise economic society on new principles. It is a bit of economic romance, such as W. Mitchell longed for in 1924.

The institutionalist is more interested in welfare than wealth. Hence the concept of a non-Euclidean economics. It is not suggested that old economics was based on Euclid's axioms and that the new economics, which is being evolved in America, is a branch of non-Euclidean geometry. It is economics right enough, but not the old economics. The old economics assumed private enterprise to be necessary and efficient. The old economics was thus individualistic. No one now admits the necessity or efficiency of private enterprise as a self-evident truth. Collectivism is opposed to individualism and the object of collectivism, even, when collectivism does not take the form of the socialist State, is to subject private enterprise to severe limitations. The New Deal in the United States, by fixing wages and profits, and through the imposition of codes on industries, has almost completely annihilated the freedom of enterprise. Individualism trusts 'the rational foresight' of individuals; institutionalism does not. And governments,

particularly during the past five years, also seem to have suddenly lost their confidence in the 'rational foresight' of individuals as a means of augmenting social welfare.

Some economists, as we have seen, deny that the science of economics has anything to do with welfare : the pure science of economics takes account of ends and means that are scarce for the attainment of those ends. Activities which degrade man and ruin health and strength are, according to this view, productive activities, provided they satisfy a want. The economics of welfare finds such conceptions not only of little use but harmful. Nor does the institutionalist accept the traditional view of wealth. Wealth, it is pointed out, may consist in things which are not fully appropriable, as industrial knowledge and healthy social customs, or which are not exchangeable, as the *morale* of labour. Not only this. The limitation of supply as an essential characteristic of wealth has no significance for the economics of welfare. Does not welfare increase when the supply of material requisites of well-being increases? It is not a question of comforts and luxuries but of the necessities of life—food, clothing and shelter. The population of India is insufficiently fed and clothed, and the housing conditions in industrial centres are extremely unsatisfactory. The economics of welfare would welcome an expansion of supply until people were surfeited with their real incomes. The economics of wealth deals not with human values but with values of the market place. An increase of supply at the present time is a cause of embarrassment. Technical progress has actually reduced wealth. And then how are we setting about remedying the situation? Consumable goods are being destroyed, productive capacity is not being fully utilised, or there is unwillingness to exploit technical progress. We seek to augment wealth by making goods scarcer. Greater the scarcity of goods, greater, under the existing system, the sum total of a community's wealth ! Is there not something inherently wrong about this conception of wealth?

It goes without saying that the method of the institutionalist is inductive. He is distrustful of theoretical analysis unrelated to the facts of life. Very often deductive analysis gives immediate and definite results, attained easily without the collection of laborious data which induction involves. But of what practical utility are such conclusions? Value, it is argued, is determined by marginal cost of production, or cost of production of the marginal producer. "Who is the marginal producer? asks the institutionalist. You tell him : "The marginal producer is a producer who makes no profit. In his case cost of production is exactly equal to price". "Very well", replies the institutionalist. "Now be so good as to find the marginal producer for me". You set out on your search. It should not be difficult to locate the marginal producer — he is such an important person. And yet you may fail to meet him. Inductive studies show that at a given price 10 to 15 per cent. of the output is produced at a loss, that is these producers are below the margin. The rest of the output is produced at a cost less than the price — these more fortunate producers are definitely above the margin. Where is the marginal producer or the no-profit employer ?

The emphasis on objective, realistic studies in America is partly due to the fact that no unified economic theory exists. As we shall see in subsequent lectures, there is no agreement among economists on the fundamentals of economic theory. There is no body of universally accepted doctrines which may be called 'economic theory.' The basic conceptions of the natural sciences are clear; scientists know what they talk about. In economic theory, on the other hand, there is now greater confusion than ever before. Economics has consequently lost in prestige. Men of science regard economics almost with contempt. One of them, Prof. Soddy, F. R. S., Nobel Laureate in chemistry, has undertaken to solve economic paradoxes for us. The situation is humiliating. Now the younger economists in America, we are told,

"not having developed fully pachydermous hides, are more sensitive to this sort of thing."[10] Deductive analysis has failed to win respect for economics; it has brought economics into discredit by giving rise to interminable, pointless discussions. Inductive analysis is therefore being used in the United States to build up a sounder theory.

The method of induction is the method of quantitative analysis. Institutional economics is therefore quantitative. Economics is concerned not with the individual but mass behaviour. The economist deals in large quantities. President Roosevelt's problems in connection with the New Deal are quantitative : how much of a given commodity may be produced and how much of another; how much money may be lent to farmers and how much compensation paid to them in order to effect a given restriction of production; how much new money may be put into circulation in order to raise prices to the desired level. The regulation of foreign trade by means of quotas involves the definite fixation of quantities that are to be imported or exported. For example, we have linked the imports of cotton piece-goods from Japan to a definite amount of cotton exports to that country. The study of the population problem is also a study of quantities, of births, deaths, age-groups, migration, food supply and other factors which have a bearing on the movement of population.

Inductive quantitative economics is regional, that is, it refers to a particular area selected for intensive study. Suppose the growth of numbers in India is the subject of investigation. We collect the necessary data and proceed to examine them. Another or a series of similar regional studies may be used for purposes of comparison. This is comparitative regional economics of the institutionalist. The object is always the solution of practical problems and increase of human welfare.

(10) Tugwell, P. 448.

Such special studies are of immense value. A comparison of the movement of population in different countries is interesting in itself; incidentally it throws much light on the non-material causes of wealth and poverty.

Is it wrong to make inter-regional comparisons? It may be objected that the economic and social organisation of a country like ours is different from that of France or England, and therefore a comparison of birth or death rates or the average duration of life in India and European countries may be misleading. But in making the comparison we do not forget the differences in economic conditions, climate, customs and other factors. And the comparison is of value just because the difference in results (*e.g.*, our higher birth and death rates, irregular rate of increase, the shorter average duration of life) is due to the operation of causes peculiar to India.

Pragmatic economics emphasizes the importance of time and place in dealing with practical issues. It does not believe in absolute truth. Truth is what is expedient. The point of view of pragmatic economics may be explained by an example. Let us assume that individualism has been tried and found wanting. What shall we substitute for it? One alternative is thorough-going Government control of economic life. But Government control has its own drawbacks. It may succeed in some cases and fail in others. Its success or failure depends on a number of factors the most important of which are the character of the people and the character of the men in authority. The issue between individualism and collectivism therefore cannot be decided on arbitrary, theoretical grounds. Neither system is to be valued for its own sake. The value of each is relative to time, place and circumstances. Before we reject a thing we must consider the nature of the substitute for it. The existing order in itself is neither good nor bad in an absolute sense. If what we propose to substitute for it is worse, then

the existing order may be called good. The idea of relative goodness or badness of things finds many applications in every-day life. A political party may continue under one leadership, not because the leadership is ideal, but because the substitute would be less desirable still.

Functional economics is a dynamic, realistic economics of welfare. It has been defined as "a study of opportunity and its use." Particular emphasis is laid by the exponents of functional economics on its connection with ethics. It regards the individual as an isolated, helpless person who must be assisted by society in its organised form to realise himself, to develop his capacities, to manifest his latent faculties. Society must therefore be so organised as to create opportunity. The creation of opportunity is thus a social, co-operative function. It is, again, not quite clear what form of society is considered best adapted to create opportunity. Is it the socialist State? Is it communism, where in theory, at any rate, all are equally free, equally rich or poor, and equally happy or miserable. Or is it the present system of private enterprise, with more of Government interference and regulation and more of the taxation of the rich for the benefit of the poor?

In an economics which is intensely realistic and inductive, and which relies for its generalisations on factual data, an important place is naturally reserved for experiments. Experimental economics, however, may now be interpreted to mean much more than laboratory research. Economics is at present trying experiments, or is compelled to try experiments, on a much larger scale. The New Deal is an experiment, and so also is the Corporate State in Italy and socialist planning in Russia. It is not yet possible to judge the results of these experiments. But the future of humanity depends on them.

What experiments are being tried in India as a means of overcoming the crisis? With the exception of the Ottawa

Agreement and the proposed restriction of crops, notably jute, our policy may be described as one of 'masterly inactivity'. We have effected economies in expenditure so far as that was possible, and in 1931 a cut was applied to official salaries. Was the cut an experiment ? If so, half the experiment is over already, and we all hope and trust that the other half will end with the complete restoration of the cut in the next budget.†

We have studied institutionalism in its manifold aspects. What is our judgment of the American trend ?

In the first place, it is a practical trend. Institutionalism is not theoretical—one may even say that it has a fine contempt for theory. Its method, as we have seen, is that of observation, experiment, collection and co-ordination of data, and deductive reasoning only on the basis of facts. In this there is a strong contrast between the method of the institutionalist and that of the theoretical economist. Take for example W. Mitchell as representative of the one school and the great Boehm-Bawerk as representative of the other. Dr. Weiss in his biographical note pre-fixed to the collected essays of Boehm-Bawerk (*Gesammelate Schriften*) tells us that Boehm-Bawerk, except when it was essential, did not adorn economic theory with statistical or philosophical adjuncts. We may disregard philosophy, but are statistics merely *Beiwerk*—something which is not essential but only an accessory or an adjunct—to the theoretical economist? To W. Mitchell statistics are much more than *Beiwerk* with which he may adorn (*Schmuecken* is the word used by Dr. Weiss) a treatise on trade cycles. Take away statistical data and the institutionalist will decline to discuss economic theory.

There are many old elements in institutionalism. In fact, much of the content of institutionalism is the old

†The cut was fully restored in March 1935.

historical method associated with the names of Roscher, Hildebrand and Knies in Germany and Cliffe Leslie in England. Institutionalists are excessively fond of new terms. But much of what they have given us is not new wine in new bottles but the old inductive wine in the old historical bottle. The label, however, is different. Their non-Euclidean economics is a protest against some of the fundamental assumptions of the old political economy, but the protest began long ago. Cliffe Leslie denied that the desire for wealth was the only incentive to economic activity and insisted that the economic conditions of a country, which determined the production and distribution of wealth, were the result of a long evolution in which there had been both continuity and change and of which the economical side was only a particular aspect or phase.

What is new about pragmatic economics except the name? It is the old doctrine of the relativity of economic precepts which is discussed in J. N. Keynes' *The Scope and Method of Political Economy*, the first edition of which appeared in 1890. Institutionalists seek to give a new interpretation to wealth. Is that new? Wealth is life, wrote Ruskin. I have not been able to discover why functional economics is precisely so called. But we have been long familiar with the idea that society should create opportunity so as to reduce inequalities due to privileges of birth, social position and wealth. The connection between economics and ethics is an old one. Much of institutionalism, so far as the aim is concerned, is economic ethics. Induction, quantitative analysis, and inter-regional comparisons are old friends whom we meet again in the garb of institutionalism.

The study of human behaviour in the light of the conditioned reflex is, however, a new and fruitful idea. The conditioned reflex gives a new explanation of economic motives. These motives are not psychological characteristics of human nature. They are not inborn, instinctive or inevit-

able, as we have been taught to regard them. Economics as the science of wealth is a sordid affair. Economics as the science of human behaviour, which takes welfare as its aim and which admits the possibility of modifying mass behaviour through the transformation of old conditioned reflexes and the creation of new ones, is a gospel of hope.

The charge has been brought against institutionalists that they have done little constructive work and that the very considerable literature that they have produced is "negative and protesting."[11] I am not much impressed by the charge. Fetter has given no definition of constructive work; a definition is necessary. Constructive work means all sorts of things. To Mahatma Gandhi constructive work means chiefly spinning cotton yarn. Constructive work in economics to some economists seems to mean spinning the yarn of economic theory, and spinning it fine. This is a pleasurable occupation. It is far from me to suggest that economic theory is valueless. But it is possible to carry the refinement of theory too far. The thread of economic theory has been spun so fine that it has almost become invisible — it is not easy to lay hold of it. Institutionalists reject economic theory which has become a thing in itself, an object of wonder and admiration, but of little earthly use. It is not all deductive reasoning that they denounce, but reasoning divorced from the facts of real life. Their work may be destructive, but destruction is sometimes essential. Some of us would feel intensely happy if an Indian Hitler or Mussolini ruthlessly destroyed the whole of our social system and the spirit which breeds communal hatred and communal war. A void may be better than a thing that is foul. But the institutionalist is not a mere wrecker. He is a builder at the same time. He has definite problems in view and he wants to slove them. These are problems of the working life, of the home life, and of smaller and greater

(11) Fetter in W. T. G. Vol 1, P. 52.

group relationships. The range of his interests is a wide one. On the one hand he wants "co-operation and co-ordination of industrial individuals and groups" through the removal of conflicts involved in competition, and on the other, he would "build a new morality for social rather than individual control" and attempt "to create industrial and social arts".[12] The crisis has made large additions to the list of problems which institutionalists had set themselves to solve.

THE NEW DEAL.

It is surprising that in spite of the constructive work of many generations of able economists there is no agreement as to the causes of the present crisis or the remedies to be applied. President Roosevelt has initiated a great experiment, but what is the theory on which he is working ? There are several interpretations of the New Deal, which are not mutually reconcilable.

Irving Fisher views the New Deal as a triumph of his equation of exchange. Fisher is an advocate of 'the honest dollar', which means a dollar with an unvarying purchasing power. A dollar whose metallic contents remain fixed but whose purchasing power is variable, as he has said, is more a standard of weight than a standard of value.

The quantity theorist, as we shall see later, regards prices as a wholly passive factor of the equation of exchange. Prices rise and fall because of increase or decrease in the medium of payments. If it is desired to raise prices, more money must be put into circulation. This is called inflation or reflation.

President Roosevelt's problem is how to raise prices. If you wish to raise the level of water in a lake, let water come into the lake and prevent it from getting out. We cannot "grasp hold of each separate wave and *pull*", as Fisher says. The right way to lift the price level, therefore, "is to restore

(12) Tugwell, P. 377.

the money tide."[13] President Roosevelt is attempting to restore the money tide. Certain measures have been adopted by the Government with the avowed object of putting more money into circulation. In this respect the National Recovery Act is an experiment in the quantity theory of money.

But this is not all. The Farm Relief Act of May 1933 was framed on a different assumption. Its object is to raise the prices of agricultural produce relatively to those of manufactured goods, which the farmers buy, by the readjustment of production to consumption and the alteration of marketing conditions. In the case of tobacco it is desired to raise the price to the average of the decennium 1919-1929. In the case of other agricultural products a return to the pre-war (1909-1914) prices is the objective. The balance between production and consumption in the case of important agricultural commodities like wheat and cotton is being restored through restriction of production. The Farm Relief Act is a 'concession' to the view that the fall of prices is not a monetary phenomenon, but is due to non-monetary causes. The 'concession', as Fisher calls it, [14] is a virtual negation of Fisher's version of the quantity theory of money.

If the experiment succeeds, which theory of money and prices would have been verified? The quantity theorist would claim that prices rose because there was reflation. His opponents would ascribe the result to the reduction of supply.

Consider the experiment from another point of view. While the chief feature of the agricultural policy is the restriction of production, prosperity is to be restored to industry through the maintenance of existing productive capacity and increase of consumption. The object of the National Industrial Recovery Act, among other things, is to ensure the harmonious working of labour and capital under Government

(13) *Mastering the Crisis*, London, 1934, P. 49.
(14) Ibid, P. 50.

supervision and control, "to eliminate unfair competitive practices, to promote the fullest possible utilisation of the present productive capacity of industries, to avoid undue restriction of production (except as may be temporarily required), to increase the consumption of industrial and agricultural products, to reduce and relieve unemployment, to improve standards of labour, and otherwise to rehabilitate industry and to conserve national resources".

Now socialists regard under-consumption as the most important cause of the crisis. Under-consumption is due to inequality of incomes, to the contrast between the few who are rich and the many who are poor. The attempt to raise prices by increasing the purchasing power of the masses may be described as a socialistic experiment.

Raising prices by inflating the currency, and raising them by increasing the purchasing power of the masses, are two different things. Inflation lowers the general purchasing power of money. If all prices and wages rise to the same extent, relative incomes remain unchanged. Similarly devaluation does not affect relative incomes.

Suppose we reduced the yard to half its present length. Human height would be at once doubled, but while a tall man, who stood six feet in his socks, would now measure 12 feet, a dwarf of 4 feet would also increase in height to 8 feet. The relative heights of the two would not change.

There seems to be no one hypothesis on which President Roosevelt is working. He believes in Fisher's 'commodity dollar'—hence the devaluation of the dollar and reflationary measures. He believes in the overproduction theory of the crisis—hence the restriction of crops and the control of industrial production. He believes in the socialist theory of under-consumption—hence the attempt to increase the purchasing power of the masses. I should find it difficult to harmonise these views in a single theory. For if the collapse

of prices is due to money, the remedy lies in reflation and devaluation, not in the restriction of production. If the trouble is not monetary, reflationary measures will produce unnecessary complications, and so far from assisting recovery, may retard it. If under-consumption is responsible for the present situation, recovery cannot come through reflation, devolution or restriction of production. Inflation will reduce the purchasing power of consumers by raising prices. The restriction of production has no effect in stimulating consumption, rather the reverse.

President Roosevelt seems to possess little faith in exchange stability as a means of recovery. At the World Economic Conference, which met in London in 1933, the Gold Block suggested stabilisation of currencies at the current gold parities. The President's reply broke the Conference. "The world", so ran the message, "will not long be lulled by the specious fallacy of achieving a temporary and probably an artificial stability in foreign exchange on the part of a few large countries only. The sound internal economic system of a nation is a greater factor in its well-being than the price of its currency in changing terms of the currencies of other nations". He told the Conference that the United States was seeking a dollar with stable purchasing and debt-paying power.

Is it possible for a country to have money of unvarying internal purchasing power irrespective of fluctuations in the value of money in other countries ? Are questions of money and prices purely national questions ? If they have an international aspect, can any country attain economic stability in the midst of a wild dance of international currencies ?

The crisis has been described as a muddle. Well, the muddle is as great now as ever before, and economic theory has failed to suggest the way out. America is trying not one but several remedies simultaneously, in the hope that one or the other may prove effective.

The world's experiences during the crisis and the need for stability may help in the reconstruction of economic theory. There are some examples of pure theories arising out of practical problems. The question of the greatest possible efficiency of heat engines initiated researches which led to the discovery of the second law of thermodynamics. The crisis may give us the right theory of economic organisation.

FROM DUALISM TO MONISM:
THEORY OF VALUE.

LECTURE III.

What is the present trend of thought on the subject of value ?

There are several trends, but the most significant is that from dualism to monism.

Dualism and monism are philosophical terms. For example, if you take the view that God exists apart from the universe, you are a dualist. But if you say with Maulana Rum:

جملہ معشوق است و عاشق پردۂ — زندۂ معشوق است و عاشق مردۂ

or with the Vedantist "*idam sarvam Brahm*," you have resolved the dualism of God and the universe and are a monist.

Matter used to be regarded as consisting of hard, little lumps. But if matter is a form of energy, the old dualism of matter and mind becomes meaningless. The development of modern physics is in the direction of monism.

Economic monism is an attempt to give a unitary explanation of the varied and complex phenomena of value.

The principles of economics that we teach in India are Marshall's *Principles*. Marshall was a dualist.

Mashall's pair of scissors is famous: "We might as reasonably dispute whether it is the upper or the under blade of a pair of scissors that cuts a piece of paper, as whether value is governed by utility or cost of production".

Marshall's explanation of value is not in terms of cost alone, or utility alone, but in terms of both. Market value is determined by a temporary equilibrium between demand and supply—supply meaning the amount coming out of a stock. In the short period supply can be increased, but only

with the existing appliances for production, or with difficulty. The effect of an increase of demand is to raise price in the short period—utility is a more important factor in governing value in the short period than cost of production. In the long period there is a more permanent equilibrium between the forces of supply and demand. Price in the long period, or normal value, is determined by cost of production—with an increase of demand, price tends to fall, rise or remain constant according as the commodity in question is produced under the law of increasing, diminishing or constant returns. When greater importance is assigned to utility or cost in explaining value, it only means that we are cutting our piece of paper by moving the upper or the under blade of the pair of scissors. Both the blades must be always there.

The explanation that economic monism gives of value is in terms of utility alone.

It is an old idea, which has been revived by the breakdown of the cost theories.

How can cost be interpreted in terms of utility? Commonsense rebels against an explanation of value which completely ignores cost.

Let us proceed step by step. What do we mean by cost of production?

Marshall has clearly distinguished between real cost and money cost. The real cost of production of a commodity consists in the efforts and sacrifices involved in its production; the sums of money that have to be paid for these efforts and sacrifices are called money cost of production, or expenses of production.

When it is said that in the long run "persistent causes dominate value completely", which causes are meant, those connected with real cost or money cost?

The answer to this question would be immaterial if money cost were a true and exact measure of real cost. What

is Marshall's view of the relation between money cost and real cost ?

In the earlier editions of the *Principles* there is at least one passage in which it is clearly suggested that money cost varies as real cost. Marshall is discussing the influences which determine short and long period normal price, taking fish as as an example. The effect of an increase in the amount demanded is to raise the short period normal supply price, or the sub-normal price, as we may call it. In the long period Nature might give a diminishing return to the increased application of capital and labour of a given order of efficiency. Or there may be no diminishing returns. "In any case", Marshall said, and this is what interests us, "the normal real cost and therefore (the general purchasing power of money being assumed stationary) the normal money cost of equipping a good boat with an efficient crew would certainly not be higher, and perhaps a little lower after the trade had settled down to its new increased dimensions than before". If a fall in the real cost of equipping a good boat with an efficient crew in the long period causes a fall in the money cost, then money cost is a measure of real cost.

In all editions, however, on a previous page, Marshall refers to the "looseness of the connection between the supply price of a commodity and its real cost of production" (marginal summary).

In his *Review of Economic Theory* Prof. Cannan has taken pains to trace the evolution of Marshall's thought on the relation of money cost to real cost between 1890 and 1920 (from the 1st to the 8th edition of the *Principles)*. The statement relating to the money and real cost of equipping a fishing boat disappeared from the 4th edition. Cannan also draws attention to other changes—*e. g.* (to give only one more example) the omission of a sentence in the sixth edition which in the earlier editions had asserted the truth of the doctrine

of the correspondence of money and real cost under certain conditions in the stationary state. Prof. Cannan is, perhaps, inclined to attach too much importance to these alterations and improvements of text. On the whole Marshall has been consistent. All editions illustrate the "way in which the efforts and sacrifices which are the real cost of production of a thing underlie the expenses which are its money cost". This is a perfectly definite statement to which Marshall committed himself in 1890 and to which he remained committed in 1920—real cost underlies money cost. Then all editions, without exception, proclaim the looseness of the connection between supply price and real cost of production. All editions suggest that in an age of change the equilibrium of normal demand and supply does not correspond to any 'precise' (1st edition) or 'distinct' (8th edition) relation of a certain aggregate of pleasures got from the consumption of a commodity and an aggregate of efforts and sacrifices involved in producing it. Verbal changes as the substitution of "For in an age of rapid change such as this" in the place of "But in an age of change such as this" mean very little. They do not alter Marshall's fundamental position.

In the 6th edition Marshall added a paragraph to the last section of Book V, chapter 3, in which he explains that the capitalist employer is directly concerned, not with efforts and sacrifices, but the money payments that he has to make for them. When considering costs from his point of view, we measure them in money. But from the social point of view "we are concerned with the real costs of efforts of various qualities, and with the real cost of waiting". What is the relation of costs from the point of view of the capitalist employer and costs from the social point of view? "If the purchasing power of money has remained about constant", Marshall says, "and if the rate of remuneration for waiting has remained about constant, then the money measure of costs corresponds to the real costs; but such a correspondence is never to be assumed lightly".

We may conclude, then, that, according to Marshall, there are grounds for assuming that there is a correspondence of money to real costs when the purchasing power of money and the rate of interest remain about the same, but he warns us that the connection between the two is a loose one.

When we, therefore, say that in the long run value is determined by cost of production, we mean not real cost but money cost, or expenses of production. The expenses of production consist of payments made for the different factors of production. For example, as Marshall explains, the normal supply price of a given quantity of cloth is found by adding together *(i)* the price of wool, coal and other materials used up in manufacture, (*ii*) wear and tear and depreciation of the buildings, machinery and other fixed capital, (*iii*) interest and insurance on all the capital, (*iv*) wages of those who work in the factories, and (*v*) the gross earnings of management (including insurance against loss) of those who undertake the risks, who engineer and superintend the work. Whether the expenses of production which determine normal price are those of the representative firm, or of the marginal or any other firm, is of no importance for our present purpose.

In regard to woollen cloth Marshall mentions five different payments. Let us call them by the first five letters of the alphabet. Then if a+b+c+d+e=Rs. 5 a yard, can we say that this sum 'determines' the price of cloth?

Let us take a simpler example, when the money cost of production consists of payment to a single factor. Many years ago I was once standing in the Bara-dari on the Shahdara side of the river Ravi. Under the Bara-dari water is deep. I saw a man dive into the water and bring up a fish in his hand, which he threw on the land. He dived again and brought up another fish. I might have bought the product of his labour, say, for 4 annas. Would there be any sense in

saying in such a case that the payment made for labour 'determined' the price of the fish ? No other factor of production had to be paid for. The man was wearing a *langoti*, but he might have discarded it—the *langoti* played no part in catching the fish. To say that the payment for labour 'determined' the price would be equivalent to saying that the 4 annas determined the price, or that the price determined itself.

The argument is essentially the same when the money cost of production consists of payments to various factors. I might buy fish caught by fishermen working with boats and nets; a+b = price. In the case of woollen cloth we add payments for more factors. When only one factor of production is involved, it is not sufficient to know what is paid, but why. When there are more factors, similarly it is not sufficient to know what is paid to each factor, or what is the total sum expended by the producer, but why each factor is paid what it is paid.

If we said that the 4 annas paid for fish measured real cost, that would be a real attempt to explain value. But as soon as we mention real cost as a determinant of value, we get involved in difficulties. The producer is not directly concerned with real costs. He reckons cost in terms of money, and there is no precise relation between money cost and real cost.

The nature of this relation is of the greatest importance, and it is for this reason that we spent a little time in trying to understand Marshall's point of view. Marshall is, of course, right when he says that the relation is not precise. As a matter of fact, even when the purchasing power of money remains about constant, money costs may not measure real costs.

The purchasing power of money is greater to-day than what it was in 1914. The Calcutta index number of wholesale prices in June 1934 stood at 90, or ten per cent.

lower than at the end of July 1914. But the purchasing power of money to-day is not much greater than what it was in 1910 [1].

The cost of production of a trained S. A. V. teacher, from the point of view of parents, is certainly higher to-day than 25 years ago. The scale of school and college fees is higher, and fees are charged from students reading in the Central Training College, Lahore. The C. T. College charged no fees 25 years ago; on the other hand, stipends were paid to all those admitted for training.

But the value of teachers has fallen. Twenty five years ago every one of the S. A. V. candidates got an appointment letter even before the completion of the period of training, and at a salary of about Rs. 80 or more. Today even highly qualified trained teachers are a glut in the market, and wages have fallen at least 30-40 per cent.

If the value of S. A. V. teachers was a correct measure of their real cost of production 25 years ago, it is not so to-day.

Let us next consider the price of raw cotton and of cotton manufactures. The relation between the two at the end of July 1914 may be expressed as 1. The average index number for raw cotton in 1918 was 309 and for cotton manufactures 298, or the price of cotton was to that of cotton manufactures as, 1 : 0. 964. The averages for 1933 were 80 cotton and 113 cotton manufactures, or the ratio became 1:1. 412. In what sense did the relative change in the prices of cotton and cotton manufactures in 1933 represent a change in real costs of production? Is it true that, relatively speaking, the grower of cotton to-day undergoes less toil and hardship than the manufacturer of cotton? The methods of cotton cultivation have not changed during the past 20 years, but improvements in methods of manufacture may have economised human

(1) The general index number of the Commercial Intelligence Dept. (39 articles) tood at 122 in 1910 and 121 in 1933.

effort in cotton mills. In any case it is clear that the changed relation between the values of raw cotton and cotton manufactures does not correspond to the ratio of real costs in cotton growing to real costs in cotton manufacture, assuming that such correspondence existed in 1914.

Marshall recognizes the difficulty of finding an exact equivalent for real costs in terms of money, but he is not willing to admit that there is no connection between the two. Somehow real costs underlie money costs.

Referring to the explanation of value in terms of demand alone Mr. D. H. Robertson says:

" But those who claim intellectual descent from Ricardo and Marshall will not be easily reconciled to this course. To abandon the conception of absolute real cost, however great the complications into which it leads us, would be a retrogade step in the development of economic theory. To that conception we must resolutely adhere, even though we are unable for the present to measure in any common unit the diverse 'efforts and sacrifices' which go to make up the great burden of world's travail, or to express the forces which determine their ever-changing volume in terms of any simple and all-embracing law."[2]

This is the argument of the dualist. But the objections to real cost as a determinant of value are of a fundamental nature. Either value is governed by real cost or it is not. There is no middle course for a scientific inquirer.

We shall make a study of Gustav Cassel's pricing process later. Here it may be mentioned that he completely abandons the conception of cost in Marshall's sense, that is cost regarded essentially as "a personal service, an exertion, a sacrifice for which there must be a certain compensation if it is to be made". Gustav Cassel abandons the conception of cost

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(2) *Fragments*, P. 21—22.

because it is "incapable of a mathematical definition, and thus excludes the possibility of any quantitative comparison of different costs."[3] Labour is of different qualities ; it is impossible to reduce the labour of a peasant, a *mistri*, a doctor, a cinema artist and a politician to a common standard. If that could be done, an arithmetical definition of labour would be possible and different labour costs could be quantitatively compared. As it is, we do not know how many hours of a peasant's labour are equal to one hour's labour of a cinema star.

In a rapidly changing world there is no relation between money cost and real cost. But we get no help from the fiction of a stationary state either in solving our riddle. In a world of rapid change, such as ours, long period results only *tend* to be realised—they are not actually realised. The stationary state is a world in which long period results *are* realised. It is the long run made permanent, or, if I may so, it is the long run petrified. As Marshall has told us, in the stationary state there is no distinction between long and short period normal value ; the representative firm is always of the same size and does the same amount of business, in the same way. The demand is the same and so also the supply. The normal price, which we suppose to be equal to the expenses of production of the representative firm, therefore never varies.

In the stationary state then we shall have fixed or unvarying normal prices of all things, including factors of production. There will be thus fixed relations between the price of anything and of all other things. In the actual world price ratios are constantly changing (*e.g.*, cotton and cotton manufactures) In the stationary state the price of cotton will always bear a fixed relation to that of cotton manufactures, wheat, copper, iron, *ghi*, etc.

(3) *The Theory of Social Economy* by Prof. G. Cassel. Vol. I, P. 91.

But what right have we to assume that these fixed and unalterable relations between prices will measure the real costs of production of different things? One hour's labour of a cinema star, even in the stationary state, may be equal to a thousand hours' labour of a peasant. We have no means of determining whether the efforts and sacrifices which an hour's work of a cinema star represents, are equal to, greater or less than the efforts and sacrifices involved in the work of a peasant during 1000 hours.

UTILITY.

The explanation of value in terms of utility must begin with Gossen's two laws, which are of fundamental importance:

I. The magnitude of one and the same satisfaction, when it is enjoyed without interruption, continually decreases until the point of satiety is reached.

II. In order to make the sum total of his satisfaction the greatest possible, a man, who is free to choose among various satisfactions, but who has not time enough to enjoy them fully, must, however different might be the magnitudes of individual satisfactions, enjoy them in parts, and indeed in such a ratio as to make the magnitude of each satisfaction, at the moment when he breaks off its enjoyment, equal to that of others.

We are all familiar with the law of diminishing utility and the law of indifference, substitution or equi-marginal utilities. It is not known to most of our students that these laws were first stated by Hermann Heinrich Gossen. Gossen was born in 1810 at Duerren in Germany. He was fond of mathematical studies, but, following his father's wishes, he studied law, and became Government Assessor, or official receiver, at Cologne in 1844. When his father died at the end of 1847, Gossen resigned Government service and lived in retirement mostly at Cologne. His book entitled

Explanation of Laws of Human Intercourse and Rules of Human Behaviour deduced therefrom appeared in the summer of 1854. Gossen had expected that the book would immediately give him the fame of a Copernicus, but no one took any notice of it. Disgusted with the indifference with which his work had been received, Gossen withdrew all copies from circulation in 1858. He died of tuberculosis in 1859 (Nov. 13).

Gossen was a discoverer of the front rank. But it was only many years after his death that the importance of his work for economic theory began to be recognised.

Gossen is not alone among those whose work met with no recognition during their life-time. One is reminded of Johann Gregor Mendel, an Austrian monk (1822-1884), who learnt through experiments in the garden of his monastery how characters may behave in heredity, and published his conclusions in 1866, but whose epoch-making paper attracted no attention till the beginning of the 20th century.

For economics Gossen's laws were not less epoch-making. Without their help it is impossible to explain value.

It will be admitted that free goods possess no exchange value because their marginal utility is zero.

In the case of irreproducible goods also marginal utility is the only explanation of value. An autograph of Aurangzebe may sell for a thousand rupees, but if autographs of Aurangzebe were plentiful like the sands of the desert, their marginal utility would be zero, and their exchange value *nil*.

But, you will say, "Take the case of reproducible goods. Is not their value determined by cost of production in the long run?"

Now we have already seen that expenses of production do not measure real cost. We have now to learn that expenses of production measure utility and utility alone.

Costs In Terms Of Utility

"Possibly", says Wieser, in *Natural Value*, "it is the greatest triumph of the theory of marginal utility that it fully explains the obscure conception of costs."[4] The labour theory alone attempted it, but, as we know, unsuccessfully.

How does marginal utility explain supply price? Given the supply of a finished good, value depends on marginal utility. Demand for a finished good is direct. But demand for an agent of production or a capital good is indirect. When an agent of production or a capital good serves only one use, its value is wholly determined by the marginal utility of the finished product which it helps to make. For example, take bricks used in house-building, and assume that they cannot be used for any other purpose. The value of bricks will be determined by the demand for houses. The marginal utility of houses determines the marginal utitity of bricks. There is a cost of production of bricks, but it only expresses the demand price of bricks for house-building. If demand for house-accommodation decreased and less houses were built, the marginai utility of bricks would fall, and the demand price for bricks would fall. Kilns which cannot reduce their expenses of production below the old price would cease to work. A new cost of production will emerge which, under the changed conditions of demand, will express the new demand price for bricks. Demand price and supply price would again be equal. But the new cost of production does not determine the price of bricks—it represents the marginal utility of bricks under the new conditions, or, as we have said, it is an expression for their demand price under the given conditions of reduced demand.

Most capital goods, however, have alternative uses. Iron may be turned into a thousand different finished goods. Of copper we may make wire, works of art or utensils of daily

(4) P. 185.

use. To produce a tennis shoe we require labour, machinery or fixed capital, canvas, leather and rubber, each of which is employed in a hundred other uses. The price of a tennis shoe is the sum of the supply prices for labour and capital, and the materials used up in the process of manufacture. How shall we express these supply prices in terms of demand or marginal utililty ?

The law of substitution or equi-marginal utilities here comes to our help. When a good can be put to different uses, it tends to be so distributed between these uses that its marginal utility in each use is equal. We remember the primitive housewife, mentioned by Marshall, who, finding that she has a limited number of hanks of yarn at her disposal, distributes the yarn between the different domestic uses in such a way as to contribute as much as possible to the family well-being—or in such a way that the yarn has the same marginal utility in all its uses. This principle applies to indirect goods as well as direct goods.

Iron may have a thousand different uses, but it will be distributed between these uses in such a way that it has the same marginal utility in all. Given a supply of iron, the marginal utility of iron depends on its demand not for a single but for all uses. Let us represent the marginal utility of a unit of iron, resulting from the relation of supply to total demand, by the figure 10. Then it follows that iron cannot be profitably used in any one of a thousand or ten thousand productive processes unless a unit of iron yields marginal utility 10. As Wieser says : "In our example, a unit of iron is estimated to have a marginal utility 10, and therefore no technical transformation of iron is possible (*lit.* permissible) which does not replace utility 10, lost through the using up of a unit of iron, by an increase of the product possessing at least the marginal 10".[5]

(5) *Grundriss der Sozialoekonomie*, Pp. 72—73.

In a steel works, the expense incurred on account of iron is an expression for the demand price or the marginal utility of iron in alternative uses ; that for coal expresses the marginal utility of coal in alternative uses, and so on. The money cost of production of steel thus resolves itself into expressions, in the form of money, of marginal utilities of labour, capital and the materials used in production.

From the point of view of the enterpriser cost means the expenses of production, which must be covered by price, but from the social point of view the expense incurred on account of each factor measures the marginal utility of the factor in alternative employments.

Marginal utility thus furnishes a complete account of value, of irreproducible as well as well as reproducible goods. The dualistic explanation in terms of utility and cost gives place to the monistic explanation in terms of utility alone.

The explanation of value in subjective terms given above was elaborated by Menger, Wieser and Boehm-Bawerk before the beginning of the 20th century. What is the present trend of world thought on this subject ?

Prof. J. Schumpeter in his review of economic thought in Germany says that the marginal utility theory is accepted by the great majority of German economists who have worked on theory. As regards others, who have taken no part in theoretical discussions, the great majority also accept this theory. "In this sense", to quote Prof. Schumpeter's exact words, "one may call it the preponderant German theory". He adds that the theory is German in that it rests exclusively on German material. Its method, that of marginal analysis, was first systematically employed by Von Thuenen. The idea of use-value (*Gebrauchswertgedanke*), it is claimed, is also of old German origin, and it was fully developed by Gossen. It may, however, be remembered that the exact formulation of the law of marginal utility in

its application to value is due to the three great Austrians, Menger, Wieser and Boehm-Bawerk.

There is opposition to the theory—Othmar Spann is one of its leading critics in Austria. The critics have attracted more attention than they deserve. As Prof. Schumpeter says, no attempt has been made in Germany since the death of Boehm-Bawerk to develop the theory or to explain the unity of its more important aspects, and he calls himself the "worst sinner" in this respect: "The opponents are vociferous; the advocates, with a few exceptions, are silent."[6]

In France, Prof. G. Pirou tells us, there are economists who reject the conception of value altogether. One of them, A. Aupetit, goes so far as to say that "Value, a word without any content of meaning today, deserves, in our opinion, to disappear from scientific vocabulary".[7] There are also some German economists who reject *(ablehnen)* the concept of value. The Swedish economist, Prof. Gustav Cassel, is interested in the pricing process, but not in the ultimate causes of value.

The greater number of French economists, however, do not share this prejudice against the theory of value.

The two leading economists, M. Ch. Rist and M. A. Aftalion, accept the marginal utility theory. In most text-books the theory is discussed at length and 'rather sympathetically.' Gide's example of pails of water is also known in India, but Gide accepts the theory only subject to certain qualifications. On the whole the theory has not struck very deep roots in French soil.

It is accepted by Holland. The famous Dutch economist, Karl Pierson, gave it a place in his *Principles*. Prof. V. Stuaart still remembers the enthusiasm with which the

(6) *W T G*. Vol. I, P. 24—25.

(7) *W T G*. Vol. I. P. 78.

pioneer works of Wieser and Boehm-Bawerk were received in Holland. It was expected that the ideas of the Austrian school would serve as a starting point for theoretical studies in new directions, and such has been the case.

"I also wish to make it clear", says Prof. Stuaart, that 'Universalist ideas' of an Othmar Spann, who wants that economics should attempt to build up its concepts 'from top downwards' have found no echo in Holland. With marginal utility theorists, Dutch economics attempts to understand economic reality from bottom upwards".[8]

We shall make a brief study of Spann's remarkable system in a subsequent lecture.

British economic thought is dominated by Marshall, but dissatisfaction with Marshall's system is growing. This may be judged from the works of Prof. Cannan and Prof. Robbin's *The Nature and Significance of Economic Science.* Prof. H. Higgs, who has reviewed the present trend of British economic thought in *Die Wirtschaftstheorie der Gegenwart*, says that Marshall's search for the Many in the One and the One in the Many has led him to introduce concepts which will not occupy a permanent place in economic theory. The 'representative' firm. is a good example: "Apart from the difficulty of saying when a firm ceases or begins to become 'representative', no justification exists for creating such categories; we do not speak of 'representative' capitalists and 'representative' labourers."[9]

"But", Prof. Higgs goes on, "Marshall at present is held in such high esteem as was Mill in the days of his greatest influence". Marshall, according to Prof. Higgs, will continue to influence British economists for a long time to come—so

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(8) *W T G.* Vol. I, P. 149.

(9) *W T G.* Vol. I, P. 63—64.

much so that they will refuse to look at the world except through Marshall's spectacles.

In Italy attempts have been made to harmonise the teaching of Marshall in regard to cost of production with the marginal utility theory. This is less interesting than the re-examination of the Marxian theory of value in Russia and its treatment as a complement of the subjective theory. For this we shall refer to Prof. Gelesnoff's *Grundzuege der Volkswirtschaftslehre* as well as his account of Russian economic theory in *Die Wirtschaftstheorie der Gegenwart.* Gelesnoff is Professor of Economics in the Moscow University.

The marginal utility theory has won its greatest triumphs in the United States. Prof. A. Fetter, writing in *Die Wirtshaftstheorie der Gegenwart*, says that every one considers the American nation the most practical and the most materialistic of all (America is universally known as the land of the Almighty Dollar). "Whoever knows America better", Prof. Fetter goes on, "knows that this is an invention, as little true as the old abstraction of 'homo economicus'; but friendly critics have often expressd their surprise that the Austrian marginal utility theory, this most subtle of theoretical developments, should have bave been so enthusiastically welcomed here, and that it should have acquired here a deeper and more far-reaching influence than in any other country". We shall have occasion to refer to J. B. Clark's concept of social marginal utility later. But attention may be drawn here to Prof. Fetter's explanation of value, which is strictly in accordance with that of the Austrian school. "The consumer", he says, "by deciding to buy this or that product sets into motion waves of value. The enterpriser transmits these to the factors. He is the medium through which consumers express their estimates". Cost thus is an "ex-

pression of consumers' estimates". Cost may seem to limit price, but even as such it is not an independent factor in the determination of prices, for "even where cost appears to be the limiting influence in the price of a particular product, the cost is itself fixed by a larger group of influences, the demand for the factor in the totality of its uses".[10]

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(10) *Modern Economic Problems*, Vol. I. P. 356.

FROM DUALISM TO MONISM: RENT AND INTEREST

Lecture IV.

We have seen that the Austrian theory of value has no use for the cost blade of Marshall's pair of scissors. Boehm-Bawerk accepts Marshall's analogy but re-names the two blades. One blade he calls 'marginal utility of the special commodity' concerned, say, cloth; the other blade, to which Marshall has given the name of cost, Boehm-Bawerk calls 'marginal utility of productivley-related goods', using Wieser's term *Produktionverwandten Gueter* to indicate goods (including services) which have alternative uses in production. On the supply side, then, the price of cloth represents demand prices of productively-related goods (yarn, labour and capital). "Thus", says Boehm-Bawerk, "it is Nutzen (utility) and not Leid (disutility) on both sides, on the side of demand as well as on the side of supply, which determines price also where the so-called costs play their role in the valuation of goods. And Jevons was not guilty of one-sided exaggeration but approximately spoke the truth when he said: 'Value depends entirely on utility.'"[1]

Why 'approximately'? we ask. Boehm-Bawerk recognizes some cases of an exceptional nature in which disutility has to be taken into account.[2] To Robinson Crusoe the value of a product = value of labour = marginal utility = disutility of work. A great painter may not work for an extra hour for 100 rupees, but for 10,000 rupees. But such cases are comparatively of small importance. "If one may use figures as an illustration, which naturally make and can have

(1) *Gesammelte Schriften*, P. 460.

(2) *Ibid.* P. 425.

no claim to exactness", says Boehm-Bawerk, "one may say: 'That blade of the pair of scissors which represents demand consists entirely of utility; that blade which represents costs, roughly, on an average, represents 9/10ths utility and 1/10th disutility".[3]

Of course the figures are not exact, but Boehm-Bawerk could not have more clearly expressed the view-point of the Austrian school. Value is determined by utility, ignoring very exceptional cases which are of no significance for the normal world of competitive production and sale.

Such is the monistic explanation of prices.

I select my second illustration of the monistic tendency of recent economic thought from the field of distribution. The old theory gave one explanation of interest and another of rent; the new theory makes no distinction between the two.

We may again begin with Marshall, the leading representative of modern economic dualism.

Perhaps you will say that in the present case the charge of dualism is not justified. Marshall treated rent as "the leading species of a large genus." There is no sharp line of demarcation between free or floating capital and invested capital, or between new and old investments of capital : "each group shades into the other gradually." Further, under certain conditions, invested capital begins to behave like land. Income from houses or machines in the short period, assuming a sudden increase or a sudden fall in the demand for their services, possesses the true characteristics of income from land. "And thus", to quote Marshall's exact words, "even the rent of land is seen, not as a thing by itself, but as the leading species of a large genus ; though indeed it has peculiarities of its own which are of vital importance from the point of view of theory as well as of practice."

(3) Ibid. P. 461.

With due deference to the great English economist it may be pointed out that rent and interest are not species of the same genus but separate genera. There is more likeness amid unlikeness between man and man-like apes than between rent and interest in the classical theory, and yet man and anthropoid apes are not species of the same genus.

Let me explain. Genus and species are biological terms, with a definite meaning. Individual animals or plants resembling each other not only in broad features but in minute detail as well are grouped together to form a species. When several species resemble each other so distinctly that their general characters indicate relationship, they are grouped together in a genus. Take cats as an example. There are big cats like the lion, tiger, leopard and jaguar, and smaller cats like the puma, lynx and the familiar domestic animal. Big and small cats form inter-related species, and until recently they were called different species of one genus. But the bigger cats roar, while the smaller cats only purr; on account of this difference (due to anatomical causes) some biologists are inclined to divide species of purring and species of roaring cats into separate genera.

Now in the classical theory rent and interest are totally different things. They are not like each other even as purring and roaring cats. I admit they are both payments to factors of production, and in this sense may be said to be related to each other. But in the same sense man is related to the whale and the cow — we have all sprung from the same root.

Quasi-rent is supposed to be a sort of connecting link between interest and rent. But there is no such thing as quasi-rent. If fixed capital behaves like land in the short period, its income is rent; it is not both interest and rent at the same time. Even if we recognise the existence of quasi-rent, it does not follow that rent and interest are species of

the same genus. Their fundamental dissimilarities remain as before.

MONISTIC EXPLANATION.

The Austrian school regard all goods from the point of view of utility. As Menger says: "Pieces of land have no exceptional position in the midst of other goods. When they are used as objects of pleasure (as pleasure-gardens, race courses), they are goods of the first order; when used to produce other goods, they are goods of higher orders, like many others."[4]

We do not value agricultural land for its own sake but for the sake of the goods that it produces. Land, then, is a source of utilities. If a piece of land will yield utilities over a very long period of time, or for ever, it is a permanent source from which utilities flow. A house may yield an income of satisfaction for a 100 years, a sewing machine for, say, ten years. A house and a machine are less durable sources of utility than land. But whether it is land, a house or a machine, in each case we are concerned with utility alone. The difference between land and appliances is a difference in degree, not in kind.

Instead of land it would be more correct to speak of the services of land (*Bodensleistungen*). If land yields only a fixed amount of services, it is a fixed stock. But even when the quantity of land is fixed, it may yield an increasing amount of services. It then ceases to be a fixed stock. The rent of land and the capital value of land will depend on the marginal utility of the services that land renders in production.

Similarly marginal utility determines the value of capital. "There is the same law of value for all goods which

(4) *Volkswirtchaftslehre*, P. 161.

yield utilities whether directly or indirectly. Menger distrusted the classical system as it had evolved separate theories to explain the value of separate categories of goods.

The most fruitful application of the law of marginal utility to land and capital was made by Boehm-Bawerk.

Let us take a machine for making sweaters which will last for six years. The value of the machine is equal to the sum of the discounted utilities that it will yield during this period. The utilities have to be discounted for they are a future good, and present goods, as a rule, are worth more than future goods of like kind and number.

There is a common saying that a bird in hand is worth two in the bush. This is not a suitable example of the manner in which future goods are discounted, for a bird in hand is worth more because we have secured it, while the two in the bush have still to be caught. Discounting the future means attaching less value to future goods simply because we cannot enjoy them in the present. All of us discount the future, some at a low, others at a high rate. To a miser future goods have the same value as present goods, or even a higher value. A spendthrift, on the other hand, lives in the present and heavily discounts the future.

Let us return to our machine, and assume that future goods are discounted at 5 per cent. annually, *i. e.*, the present worth of 105 a year hence is 100. Suppose the machine yields an annual utility of 100. If there were no discounting of future goods, the value of the machine would be equal to the total mass of the utilities yielded by it, or $100 \times 5 = 500$. Since future utilities are subject to discount at 5% annually, the value of the machine would be equal to the present worth of the six utilities, or

$$95{\cdot}23+90{\cdot}70+86{\cdot}38+82{\cdot}27+78{\cdot}35+74{\cdot}64=507{\cdot}57$$

The shorter the period during which a durable good yields

up all its utilities, the smaller would be the deduction on account of the under-valuation of the future.

The preference of present over future goods gives rise to interest.

The present worth of the first instalment of utility of the machine (which we assume will be obtained at the end of a year) is 95·23. At the end of the first year five more instalments of utility remain : 90·7, 86·38, 82·27, 78·35, 74·64. At the end of the first year these utilities would be worth

95·23+90·7+86·38+82·27+78·35=432·93.

Why? The present worth of a utility which will accrue two years later is 90·7, but a year later, its present worth will be more, because the period during which one has to wait for its realisation is reduced to one year. At the end of the first year then, the machine will be worth 432·93. The loss of utility which the machine has suffered during the first year is 507·57—432·93=74·64. But the utility enjoyed was worth 95·23. The excess of 95·23 over 74·64 (=20·59) is interest or net income.

The idea of this net income should be clearly grasped. It is the difference between the utility obtained and the marginal utility lost. If the marginal utility lost were equal to the utility gained, there would be no net income at all. Interest therefore arises on account of the lower valuation of future goods. It is the price of time.

If we take a more durable good, *e. g.* a house, which would yield utilities for a hundred years, the marginal utility lost (or wear and tear) would be very small. In the case of land which may yield utilities for ever, the loss of utility would be just zero. Suppose the value of the annual current service of a piece of land is 100 rupees. No loss of value would have to be deducted from this 100 at the end of the

first year, as we did in the case of the machine; deduction in the case of a house lasting 100 years would be only 0·76. Both the house and the land thus yield the whole of Rs. 100 as net income annually. Their capital value would be found by capitalising the annual yield at the current rate of interest, which represents the rate at which future goods are discounted.

It will be seen that Boehm-Bawerk offers the same explanation of rent and interest. Land is more durable than a house, but the value of land is the sum of its discounted utilities, as that of the house. Both interest and rent are 'net income' due to under-valuation of future goods. Suppose there was no such under-valuation. Then a piece of land, which yielded an income of Rs. 100 a year for 2,000 years, would be worth 100×2,000=2 lakhs, and a house with an annual rent of Rs. 100, which lasted 100 years would be worth Rs. 10,000. The income from the land and the house could not be called 'net income'—it would represent gradual destruction of a stock of utilities. A house would represent a mass of say 10,000 utilities, which are consumed at the rate of 100 a year, and paid for. But we know that the capital value of a house with Rs. 100 as annual rent is not Rs 10,000, nor of land with the same rent, which would yield products for 2,000 years, Rs. 2 lakhs, or of land which would yield utilities for ever, infinity. It is certain that future utilities are discounted, and in the same manner in the case of both land and capital. "The theoretical explanation of rent from land," we conclude with Boehm-Bawerk, "thus, in the last analysis, coincides with that of interest yielded by durable capital goods : the rent of land is nothing but a special case of interest yielded by durable goods."[5]

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(5) *Positive Theorie des Kepitals*, Vol. I. P. 425.

The Austrian theory demolishes the Marxian view of interest as exploitation or theft. Boehm-Bawerk asks: "What labourers are exploited by the owner of a house?" Suppose the total cost of building a house is 20,000 florins and that the whole of this sum was paid away to labourers as wages, "so that the house came into being without an atom of exploiter's profit." But year after year the house yields 1000 florins to the owner as interest on his capital: "Where is the labourer to be found from whom 1000 florins c in be obtained by fraud or force?"[6]

Boehm-Bawerk rejected the Ricardian theory of rent. It contains an element of truth, but the formulation of principle is wrong. Ricardo failed to find the principle which throws a flood of light on the whole problem: "His theory lights up a part of the road but leads in the end to darkness and error."[7]

Having understood the essential nature of land and capital as sources of utility subject to discount, we should have no difficulty in following the criticism of the Ricardian theory by a leading writer of the Austrian school like Prof. Schumpeter of the Berlin University. He has given a very clear exposition of the Austrian conception of rent in his *Das Wesen und der Hauptinhalt der theoretischen Nationalo-ekonomie.*

"In our system", he says, "each piece of land has one definite value and price, which is explained precisely in the same way, and which is subject precisely to the same formal laws as the value and price of any other good."[8]

(6) *Ibid.* P. 417.
(7) *Ibid.* P. 425,
(8) P. 368.

The classical theory lays emphasis on the peculiarities of land. They are of no account in the Austrian theory. "What is more natural than to say," asks Prof. Schumpeter, "that a price is paid for land because it is useful, because one wants it"? Let us assume that land is a fixed stock, though this is not strictly true. Rare postage stamps, rare manuscripts, rare paintings are also a fixed stock. Marginal utility governs the price of all rare things, and the same principle applies to land. Suppose more people started collecting rare postage stamps—up would go their prices. If population is growing rapidly so that demand for food and raw materials increases, the marginal utility of land would increase and up would go rent. Land is a good of a higher order. But land is also used for pleasure gardens. When used as such land yields utilities directly. Suppose there was no demand for land except for this direct use. Would there be any difference in principle then between land and any other direct good whose supply was limited? True, the chief demand for land is indirect. But so also is the demand for all capital goods. It may be objected that the supply of capital goods is more elastic than that of land. This is not a distinction of fundamental importance in the Austrian theory—*das spielt keine Rolle bei den Grundfragen*, as Prof. Schumpeter says. The classical theory is based on the conception of cost. In the long period income from fixed capital tends to equal the current rate of interest, which is the reward for 'waiting'. In the Austarian thoery 'waiting', 'abstinence' and 'efforts and sacrifices' play no role at all. If value is determined by utility and utility alone, it is a matter of indifference from the point of view of theory whether the supply of a good is more or less elastic than that of other goods, or is even absolutely inelastic. Given the supply—it may be limited by nature or 'efforts and sacrifices,' or by simple 'waiting,' value is determined by marginal utility in all cases.

If different pieces of land are of different degrees of fertility, their incomes would be different. Why should that occasion any surprise? Why should new principles be invoked to explain the rent of land because of differences in fertility? All machines are not equally useful. The owner of a good machine earns more than the owner of a bad one, and a more efficient workman more than one who is less efficient. When land is of the same order of fertility, the law of diminishing returns must be in operation before rent can emerge. The Austrian theory does not need such crutches (*Kruecke*).[9] The law of diminishing utility makes the law of diminishing returns superfluous.

"The most material objection"[10] to the classical theory of rent, according to Prof. Schumpeter, is that it assumes a given price of the produce of land. Given a price of wheat, the cultivation of wheat is pushed to a margin where the produce is just sufficient to cover the expenses of production, leaving nothing for rent. If this price were not given, it would be impossible to determine the position of the margin and the amount of marginal cost. Further, in order to assume a certain price of wheat, we must further assume a given distribution of land between alternative uses, *e. g.*, wheat and sugar-cane. If this distribution were not given, more or less wheat might be produced, and the price of wheat might be higher or lower. A change in the price of wheat would necessarily change the margin of cultivation and marginal cost. Is there much left to explain once it is known how land is distributed between different uses? If the value of land for cane-growing is higher than that for wheat cultivation, more land will be devoted to the former use. Land in this respect is not different from capital. It is so distributed between different uses that its marginal utility in all uses is equal. It is obvious that when this distribution

(9) P. 379.
(10) P. 381.

is assumed in order to explain rent we are assuming what we set out to explain. Well may Prof. Schumpeter say that the classical rent theory, which pretends to explain the value of the services of land, already assumes it; it is no theory at all (*ueberhaupt keine Theorie*).

The classical view that rent is not an element of cost has been generally abandoned. The land of worst quality, whose supply may be supposed to be indefinite, may bear no rent. But the worst land devoted to the cultivation of a valuable crop like wheat must pay rent, which will enter the cost of production of wheat. Why? Because if this land were not used for wheat, it could be used for the cultivation of cotton, oil-seeds or sugar-cane. There is competition of crops for land of the same quality, and when such land is put to one of several uses, it has value as land which must enter price. Dr. Weiss, writing in *Die Wirtschaftstheorie der Gegenwart* on this subject, agrees with Marshall that between the £ 2, rent of pasture land in Jevons' well known illustration, and the marginal cost of production of wheat there is no intimate connection. Not because Marshall's view of the relation of rent to marginal cost is correct, but because Jevons did not choose his illustration well. There is no intimate connection, as Dr. Weiss says, between the price at which pianos are sold and their value as fire-wood. Or, to take another example, there is no intimate connection between the cost of production which determines the price of a treatise on economics and the price which it might realise when sold as waste-paper by weight. When it is argued that rent is an element of cost we have in mind pieces of land of the same quality which might be used for growing more or less equally valuable crops.

When rent is regarded as a payment for the services of land in the same sense in which interest is a payment for the services of capital, the relation of rent and interest to price must be the same. From the side of supply rent is an

expression for the demand price of land, as interest is an expression for the demand price of capital, in alternative employments.

The gulf between the classical and the Austrian theory is unbridgeable. This is shown by Prof. Schumpeter's remark that the law of diminishing utility makes the law of diminishing returns superfluous. The law of diminishing returns, as we have seen, is not superfluous if we study rent from the point of view of cost of production. But the enquiry into the conditions under which corn is produced on the margin, extensive or intensive, is rendered superfluous if we approach our problem from the point of view of utility. Whether agriculture is subject to increasing or diminishing returns is a question of technical detail, which does not affect the main principle of valuation. If agriculture is giving diminishing returns, the supply of agricultural produce will increase slowly, and if, at the same time, population is increasing more rapidly, the marginal utility or price (expression of marginal utility in terms of money) of the produce of land will be higher. Since the value of land as an indirect good depends on the value of its services, land will earn a higher return. If agriculture is subject to increasing returns and the supply of agricultural products is expanding more rapidly than the demand for them, the value of the services of land must fall. What then is of fundamental importance for valuation is not the technical conditions under which food and raw materials are produced (they only determine the amount of the supply), but the causes which govern demand—not diminishing physical returns but diminishing psychic returns.

We have discussed two theories of rent. Which of the rival theories explains rent in India?

Justice Ranade wrote in 1898 that the Ricardian doctrine did not apply to India. Firstly, he said, rent was

not an unearned income in India, as it was in the West, as in England land continued in the same hands for generations; in India, on the other hand, it changed hands very frequently, so that rent was only 'fair profits' on the capital invested. "In the same way", continued Justice Ranade, "the Ricardian theory that Economic Rent does not enter as an element of price, admittedly does not apply where all occupied land has to pay Monopoly Rent to the State Landlord. There is no competition among Landlords in this country, for there is only one true Landlord, and the so-called Land-Tax is not a tax on Rents proper, but frequently encroaches upon the profits and wages of the poor peasant, who has to submit perforce to a loss of Status, and accommodate himself to a lower standard of life as pressure increases".[11]

Justice Ranade was mistaken in thinking that the land revenue was of the nature of rent. The State in India is not the universal landlord. It recognizes rights of property in land —so did the Moghul Kings. It is not necessary for us to go more fully into the question. It was discussed by the Indian Taxation Enquiry Committee of 1924-25 and the Committee settled the controversy for all time. There is no State landlordism in India.

The land revenue is then of the nature of a tax. If a tax is so heavy that it encroaches on the profits and wages of the cultivator, it will enter price. There is no dispute about that.

We are at present concerned with rent paid to landlords. We may ignore Government's share in the so-called profits of cultivation.

Is landlord's rent a surplus above cost of production in India?

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(11) *Essays.* Pp. 31—2.

Before answering this question I must formally protest against the view that conditions in India are so different that economic principles which apply in the West do not apply in India. The Indian Prices Enquiry Committee of 1910 thought that prices in India were determined by competition among purchasers and not by cost, since Indian cultivators were not able to calculate their costs. This is an essentially wrong view of the question. The forces which govern value are the same everywhere. If prices are governed by cost elsewhere, they must be so governed in India as well. Similarly, rent cannot be a surplus above cost in the West and an element of cost in India. Or, if we find reasons for thinking that value is explained entirely by utility, this conclusion must be valid both for India and other countries. The law of value rests on fundamental impulses of human nature, and human nature in India is not different from human nature in any other part of the world. It will be ridiculous to suggest that the laws of diminishing utility and substitution do not apply in India, or that we are so constituted that we prefer future goods to present goods!

For facts about rent we turn to the *Punjab Farm Accounts*. Some of these Accounts relate to *batai* cultivation, and it is in these that we are now interested. I select two examples, the Government Risalewala Farm in the Lyallpur District, 802·5 acres in extent, and the other a private farm of 27¼ acres, also in the Lyallpur District. The Risalewala Farm is managed by the Government Department of Agriculture and enjoys many advantages which private farms do not. Its income is the highest among all the farms whose accounts have so far been published, and it shows *batai* cultivation under more favourable conditions than those which govern the division of the gross produce between private landlords and tenants.

The following statement shows the total 'net income' per acre and the shares of the landlord and the tenant on these two farms during the past five years:

'NET INCOME' PER ACRE.

		Total.			Landlord.			Tenant.		
		Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
1927-28										
Govt. Farm	....	54	5	11	37	9	1	16	12	10
Private "	....	6	7	5	12	3	1	−5	11	8
1928-29										
Govt. Farm	....	61	3	9	29	0	7	22	3	2
Private "	....	33	14	6	24	13	10	9	0	8
1929-30										
Govt. Farm	....	51	3	7	36	5	10	14	13	9
Private "	....	29	6	0	23	1	10	6	4	2
1930-31										
Govt. Farm	....	18	8	11	16	11	1	1	13	10
Private "	....	4	14	8	10	14	6	−5	15	10
1931-32										
Govt. Farm	....	24	13	1	16	8	10	8	4	3
Private "	....	20	8	2	16	7	9	4	0	5

It should be noted that total 'net income' includes wages for the tenant's labour and profits of enterprise. It is not a surplus above total cost, which includes wages and normal profits. For example, Rs. 6-7-5 was the total 'net income' per acre of the private farm in 1927-28. This 'net income' was not found after making allowance for the tenant's wages and profits. Total 'net income' in the *Farm Accounts* is very misleading.

In the case of the landlord 'net income' is true net income, and is found by deducting from the landlord's share of the gross produce (one-half) all expenses incurred by him. This may be shown by an example :

RISALEWALA GOVERNMENT FARM, 1931-32.

Per acre		Total.			Landlord.			Tenant.		
		Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
Gross Income	....	51	1	2	25	7	9	25	9	5
Expenditure	....	26	4	1	8	14	11	17	5	2
Net Income	....	24	13	1	16	8	10	8	4	3

PRIVATE FARM, 1931-32.

Gross Income	....	46	7	3	23	3	8	23	3	7
Expenditure	....	25	15	1	6	11	11	19	3	2
Net Income	....	20	8	2	16	7	9	4	0	5

In the case of both farms the gross incomes of landlord and tenant were about equal. The Government incurred an expenditure of Rs. 8-14-11 per acre as detailed below :

		Rs.	a.	p.
Management	....	5	10	11
Implements	....	I	5	7
Harvesting	....	0	12	9
Winnowing	....	0	7	4
Seeds	....	0	10	4
Total	....	8	14	11

The net income of the Government thus amounted to Rs. 16-8-10 per acre. The expenditure of the tenant includes charges on account of implements, harvesting, winnowing, kamins, hired labour, upkeep of bullocks, seed, water-rates and weighing, but no wages for his labour and no profits. The 'net income' of the tenant is thus his wages and profits.

The following statement shows expenditure per acre on the private farm:

Batai Cultivation. Canal-irrigated farm (private) in the Lyallpur District. 27 1/4 acres. Expenditure per acre 1931-32.

	Landlord.			*Tenant.*			*Total.*		
	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.
Land Revenue	3	11	11	3	11	10	7	7	9
Water-rates	2	3	5	2	3	6	4	6	11
Seed		....		2	0	11	2	0	11
Upkeep of bullocks		....		9	4	8	9	4	8
Harvesting	0	2	10	0	2	10	0	5	8
Winnowing	0	6	5	0	6	5	0	12	10
Kamins	0	3	4	0	3	4	0	6	8
Implements		....		0	15	1	0	15	1
Miscellaneous		....		0	2	7	0	2	7
Total	6	11	11	19	3	2	25	15	1

It is seen that land revenue and water-rates and the charges on account of harvesting, winnowing and kamins were shared equally between landlord and tenant; the rest of the expenditure was borne entirely by the tenant. The landlord's net income is the price paid to him as hire of the land; the tenant's 'net income,' as in the case of the Government farm, is the reward for his labour and enterprise.

Let us examine this reward. The Government farm was cultivated by 40 tenants. Average 'net income' in 1931-32 for the family of the tenant, per day, amounted to Rs. 0-7-3, and average 'net income' per adult man per day to Rs. 0-3-0. The figures for the preceding four years are given below :

RISALEWALA FARM. TENANTS' 'NET INCOME'

	Average 'net income' for the family per day			*Average 'net income' per adult man per day*		
	Rs.	a.	p.	Rs.	a.	p.
1927-28	0	14	0	0	6	8
1928-29	1	2	6	0	8	10
1929-30	0	13	1	0	5	9
1930-31	0	1	8	0	0	9

On the private farm the tenant not only earned no 'net income' but suffered a loss in 1927-28 and in 1930-31. In 1931-32 the reward for his labour amounted to Rs. 4-0-5 per acre, or in all Rs. 110-0-3 for 27 1/4 acres. Four able-bodied men worked on this farm, so that the reward for labour and enterprise amounted to Rs. 27-6-1 per adult labourer, or about 5 pice per day.

Taking the five years 1927-28 to 1931-32 together, the average annual net income of the landlord on this farm amounted to Rs. 486-0-8, and that of the tenant Rs. 43-1-5. Of the total average annual 'net income' (calculated without making any allowance for wages and profits) the landlord took about 92 per cent. leaving 8 per cent. to the tenant as the tenant's reward for his toil.

Such are our facts. What is their meaning? What light do they throw on the nature of rent?

Under *batai* cultivation the gross rent, as a share of the produce, is fixed, but the landlord's net income varies according to variations in the total outturn and prices. For example, in 1927-28 the season was unfavourable for both wheat and cotton, and although prices were good, the tenant on the private farm suffered a loss on his year's cultivation. Between 1927-28 and 1930-31 prices fell heavily and continuously—wheat from Rs. 4-6-0 to Re. 1-9-0 per maund and cotton from Rs. 13-12-0 to Rs. 5-9-0. The net income of the landlord and wages and profits of the cultivator fell with prices. In 1928-29 the private tenant earned Rs. 9-0-8 per acre and the landlord's net income amounted to Rs. 24-13-10, while in 1930-31 the tenant suffered a loss of about Rs. 6 per acre and the net income of the landlord was a little less than Rs. 11 per acre, or less than half of that in 1928-29.

It is clear that rent comes out of price: higher the price, higher the rent. But wages and profits also come out of price, precisely in the same way... Higher the price, greater

the remuneration of the peasant for his labour and enterprise. The same is true of interest on capital. With the fall of prices, rent, wages, profits and interest have fallen together. The money-lender is finding it extremely difficult to realise his dues.

Secondly, the share of the landlord in the total 'net income' of the land is very high. In some cases the share of the landlord is more than 100 per cent. of the 'net income'. When prices are high the peasant earns his subsistence, not more. When prices fall, he may not only earn nothing but work for a whole year entirely for the benefit of his landlord. It is not rent but wages and normal profits which do not seem to enter as an element in cost of production in the Punjab !

Thirdly, rent is not a surplus above cost. If it were a true surplus, then the farmer, as a rule, after paying the rent, would be left with a sufficient amount to buy necessaries, conventional necessaries, and even some comforts and luxuries for himself and his family. But in the Punjab what the rent-paying peasant earns by cultivation has no connection with real cost. When rents are so high as they are under *batai* cultivation, and the peasant earns so little as he does on an average of good, bad and indifferent years, it is impossible to call rent a 'surplus'.

What is the explanation of the extraordinary facts revealed by the *Punjab Farm Accounts ?*

The price of agricultural produce is determined by the conditions of demand, in India as every where else. Prices have fallen on account of the expansion of production, which has lowered the marginal utility of all agricultural produce.

Our methods of cultivation have not changed, but the decline in the foreign demand for our exports has brought

down agricultural prices. Wheat may be taken as an example. In the five pre-war years 1909-10 to 1913-14 average annual exports of wheat from India amounted to 1·3 million tons and in the five post-war years 1919-20 to 1923-24 to 237,000 tons. The actual quantity exported in 1931-32 was 20,000 tons, in 1932-33, 2,000 tons and in 1933-34 also 2,000 tons. In spite of the preference that Indian wheat enjoys in the United Kingdom the quantity sold by us to the United Kingdom in 1933-34 was valued at only Rs. 17. Further, we levy an import duty on wheat to keep out foreign wheat. But for the duty the price of wheat in India would be lower still.

The high level of rents, in spite of the inevitable fall in their amount in consequence of the fall in agricultural prices, is an index of the high marginal utility of cultivated land. The low level of the farmer's wages (profits there are none) is an expression of the low marginal utility of his services.

During the past 30 or 40 years the pressure of population on the soil has steadily increased in almost all parts of India. As for the Punjab, the number of cultivating owners and tenant cultivators increased by 24·7 per cent. in the last decade (1921-31) as compared with the 14 per cent. increase in the general population.

Where the number of landless cultivators is growing rapidly and where they have no alternative means of earning a living, the marginal utility of their services must fall as their numbers grow. That is alone how we can explain the remarkable fact that on an average of good, bad and indifferent years, a tenant may earn only 43 rupees in a year, while paying more than ten times as much as rent.

It may be objected that conditions in India are exceptional. But wherever competition for land is keen, rents

will be high and wages low. It is immaterial whether rents are paid in cash or kind. We require no new principles to explain rent in India. The Austrian theory connects rent, wages and interest with the marginal utility of the services of the three agents of production. This connection is a patent reality in India.

nary letter you had to affix stamps of 10,000 rupees! Thing were not half so bad in India during the inflation—in facts, a compared with Central Europe, there was no currency inflatio in India.

The value of money, it is seen, does convey a definit idea. We have also incidentally learnt that it is subject t very great fluctuations.

What determines the value of money?

The quantity theory explains the value of money from the side of supply and the income theory from the side of demand It is these rival theories which we now proceed to examine.

Irving Fisher is the greatest living exponent of the quantity theory. Fisher's equation of exchange is well known: $MV + M'V' = PT$, where M is the quantity of metallic money, M′ credit money, V and V′ velocity of circulation of metallic and credit money respectively, P the average level of prices and T the total number of transactions. Suppose $M=200$, $V=2$, $M'=100$ and $V'=1$. Then $(200\times2)+100=PT$. If T is 500, P must be 1; if T is 1000, P must be $\frac{1}{2}$. The two sides of the equation must always be equal. If T was 500 while the money side of the equation doubled, P would be 2 and so on.

Fisher claims that changes in the value of money occur solely on account of changes in its quantity. If a change in the quantity of money does not affect V or V′, nor the volume of trade, it follows necessarily and mathematically that the doubling of the quantity of money must raise prices in the same proportion, *i. e.*, prices must double. Fisher maintains that there is a fixed relation between M and M′, so that when M changes in any proportion M′ must change in the same proportion.

This is one form, the crudest, of the quantity theory. No one today accepts the quantity theory in this form. It is recognised that there is no fixed relation between metallic

money and credit money, and further that a change in M or M′, or both, may affect V, V′ and T. It is never true that a change in the quantity of money (M + M′) is followed by an exactly proportional change in prices.

A second form of the quantity theory is that given by J. M. Keynes in his *Tract on Monetary Reform* (1923)[3]. Let us try to follow Keynes.

A currency note is valued not for its own sake but for the sake of the purchasing power it represents. People keep with them a certain number of notes—determined by the amount of purchasing power which they want to hold. If the wealth and habits of a people do not change, the amount of purchasing power which they will hold in the form of money will not change either—this amount is definitely fixed. Keynes measures this definite amount of purchasing power in the form of consumption units, each consumption unit representing a collection of specific quantities of standard articles of consumption. If the total amount of cash (notes and rupees)= n; if we hold k consumption units in cash and a further k' available at the bank against cheques; and if r is the proportion of bankers' reserves to their liabilities, it follows that

$$n = p\,(k + rk')$$

The equation brings out the effect of changes in V and V′ on P (of Fisher's equation). Let us take an example.

Between 1924 and 1930 the circulation of rupees and notes in India (n) decreased from about 448 crores to about 353 crores[4], bank deposits increased from 138 to 148 crores, the proportion of bank reserves to liabilities fell from 20% to 14%, and prices (Calcutta, wholesale) fell from 173 to 116 (or from 1.5 to 1). The equations for the two years are given below :

(3) Chapter III.
(4) Roughly calculated.

	1924	1930
n	448	353
p	1·5	1·0
k	280	332
k'	92	148
r	·20	·14

Equation for 1924 : $448 = 1{\cdot}5\ (280+92\times{\cdot}20)$

Equation for 1930 : $353 = 1\ (332+148\times{\cdot}14)$

It is seen that between 1924 and 1930, while the circulation contracted in the proportion of 1·3 to 1, prices fell in the proportion of 1·5 to 1, or to a greater extent. The explanation lies in the movement of k and k'—k grew from 280 in 1924 to 332 in 1930, and k' from 92 to 148. The meaning is that the purchasing power kept in hand (and to a smaller extent at the bank) was greater in 1930 than in 1924—or money changed hands less rapidly in 1930 than in 1924.

In a period of boom, trade is brisk and money changes hands rapidly. In a boom k and k' would tend to diminish, irrespective of changes in n and r. In a period of depression k and k' tend to increase. Keynes called k and k' 'real balances', or balances in terms of purchasing power in hand and at the bank. In a boom there is deflation and in a depression inflation of 'real balances.'

When a country experiences inflation, such as was witnessed by the countries of Central Europe in post-war years, the velocity of circulation increases enormously and prices rise much more rapidly than the quantity of circulation. The following statement compares the rate of increase in the note circulation with the rise of prices in Russia between 1918 and 1921[5]:

(5) *Die Sowjet Union nach dem Tode Lenins* by Prof. De Vries (Berlin, 1925) p. 110.

	Increase of note circulation	*Rise of prices*
	%	%
1918, 1st six months	60	323
,, 2nd ,,	40	84
1919, 1st ,,	64	300
,, 2nd ,,	125	269
1920, 1st ,,	127	237
,, 2nd ,,	128	106
1921, 1st ,,	101	380

No rule of proportion applies here. In the first six months of 1918, while the note circulation increased 60 per cent, prices rose 323 per cent; in the next six months prices rose 84 per cent as compared with an increase in note circulation of 40 per cent, and so on.

The emphasis on changes in V and V′, or k and k' as an index to changes in the value of money does not fundamentally alter the character of the quantity theory, for an increase or decrease in the velocity of circulation may be regarded as a virtual increase or decrease in the supply of money. If a rupee changes hands ten times, it does the work of 10 rupees —it is equal to 10 rupees so far as the money-work done by it is concerned. When the velocity of circulation doubles, the quantity of money remaining unchanged, the effective supply of money may be said to have doubled.

An increase in the velocity of circulation may thus reduce the elasticity of demand for money to less than unity. Let us assume that M and M′ of Fisher's equation have increased 100 per cent, V, V′ and T remaining unchanged. Prices must double, or the value of money must become one-half of what it was before. The quantity of money multiplied by its value remains constant, or the elasticity of demand for money is unity. But when money increases from 100 to 200 and prices rise from 100 to 400 the elasticity of demand for money is not 1 but $\frac{1}{2}$.

In a depression, on account of decrease in the velocity of circulation, elasticity of demand for money rises above unity. For example, between 1924 and 1930 prices in India fell from 173 to 116, or in the ratio of 100 : 67, while the quantity of circulation decreased from 448 crores to 353 crores, or in the ratio of 100 : 79. There was a rise in the elasticity of demand for money from 1 to approximately 1·2.

Keynes's equation is not essentially different from that of Fisher. As Aftalion says, the dominant role which belongs to M, the quantity of money in Fisher's equation, passes to k (ignoring credit) or to real balances of individuals in Keynes's equation, for variation of real balances only means that money is circulating more or less rapidly.[6]

Aftalion is an upholder (by no means timid) of the income theory of the value of money. He admits (as every one will) that there is an obvious connection between the value of money and changes in the velocity of circulation. But what is the nature of this connection? Which is cause and which is effect? In Fisher's equation M is the cause and P wholly an effect. Keynes's equation transfers the causal role to velocity. It is this relation of cause and effect which is the subject of dispute. For the opponents of the quantity theory also the equation of exchange is a self-evident truth. They also recognise that when there is discordance between M and P it must be due to variations either in M′ or V and V′ (T remaining unchanged). "But what they do not admit is that these variations are always independent of prices and are always a cause of the movement of prices".[7]

In his recent *Treatise on Money* Keynes has given us another equation. The first equation, $n = p\ (k + rk')$ assumed that cash-deposits were used for nothing except expenditure on current consumption, whereas in fact they are held for a great

(6) Loc. cit. P. 124.

(7) *Ibid.*

many purposes, both of a business and personal nature. "Our units of Real-balances", says Keynes, "must, therefore, correspond to the multiplicity of purposes for which Cash-balances are used, and the price level measured by p must be the price level appropriate to this multiplicity of purposes".[8] Allowance is made for this multiplicity of uses of Cash-balances in Keynes's new equation :

If M = the total volume of Cash-balances, and

C = the corresponding volume of Real-balances,

then $P = \frac{M}{C}$.

This equation brings out the parts played by the decisions of bankers and depositors respectively in the determination of prices. The bankers 'create' the volume of cash-balances, and depositors 'create' the volume of real-balances.[9] The price level is measured by the ratio of the volume of the cash-balances created to that of the real-balances created.

We thus learn that the price level does not depend solely on the cash-balances created by bankers. It can be affected "just as much by the decisions of the depositors to vary the amounts of real-balances which they (the depositors) keep, as by the decisions of the bankers to vary the amounts of money-balances which they (the bankers) create".[10]

The explanation of the value of money is still in terms of quantity: in terms of cash-balances created by bankers and real-balances created by depositors. When a great many individuals decide to diminish their stocks of real-balances, the price level must go up unless bankers diminish the stock of cash correspondingly. The meaning is that when money is

(8) Vol. I. P. 223.
(9) *Ibid.* P. 224.
(10) *Ibid.* P. 228.

being spent more freely, prices will tend to rise unless bankers at the same time take steps to restrict credit facilities.

Keynes's *Treatise on Money* appeared in 1930. Aftalion's *Monnai, Prix et Change* had appeared three years earlier. There is not a single reference to Aftalion in Keynes's *Treatise.* I find it incomprehensible. Aftalion is one of the leading French economists. It is impossible that Keynes has not seen Aftalion's book, and if he has seen it, it is difficult to understand why he completely ignores Aftalion's criticism. We should like to know from Keynes whether it is possible for prices to vary independently of changes in the quantity of money, velocity of circulation and volume of trade. The question demands a definite and unequivocal answer. For if it is found that prices can rise directly on account of the action of a factor which is not connected with the equation of exchange, the quantity theory must be given up.

One is sick of equations of exchange. They pretend to explain the value of money, but they really explain nothing. Take, for example, the Cambridge equation, $P = \frac{KR}{M}$ where R is the total resources in the form of wheat (or any other article) that are enjoyed by a country; K the proportion of these resources that the community chooses to keep in the form of titles to legal tender, M the number of units of legal tender, and P the value or price per unit of these titles in terms of wheat. We agree that $P = \frac{KR}{M}$. We also agree that K and R being fixed, P, or the value of these titles, will decrease as M increases, and increase as M decreases; that M and R being fixed, the value of the titles will vary directly as K; and that K and M being fixed, it will vary directly as R. All that is very very, true, and very, very dull, and utterly useless.

The income theory unlike the quantity theory, is something more than a truism.

Suppose the currency of a country consists of inconvertible notes and that there is political confusion in the country. If people begin to fear that a change of government is likely and that the new government will not respect the currency issued by the old, there would immediately occur a heavy fall in the value of the currency, even when there has been no change in its quantity. Why? You will say that n begin equal to pk (we ignore credit money), and n having remained unaltered, the rise of p implies that k has grown smaller, or that people are keeping smaller real balances in hand—in other words the velocity of circulation has increased. But it is not necessary to invoke the aid of velocity. Want of confidence in the existing currency may directly act on prices. Prices rise because the marginal utility of money is lowered by the fear of a revolution.

Let us take another example. In the inflation period in Germany every rise of the dollar caused a rise of internal prices. I still remember a joke of those days which appeared in a German humourist paper *(Lustige Blaetter)*. A German went into a barber's shop to get a shave. The price of the service was agreed upon before the barber commenced operations. When he had finished about half his work, he heard a newsboy shouting in the streets that the dollar had risen. He stopped immediately and said to his client: "Sir, the dollar has risen and I must charge you more. If you do not agree, you may go". I do not recall the end of the story—whether the client elected to stay or went away with half his chin shaved and half unshaved—that is immaterial. But it is a fact that in those days every rise in the dollar immediately led to a rise of prices (reckoned in paper marks) before V had time to increase. After all, if prices are to rise because money is changing hands more rapidly, money must have time to change hands more rapidly. But if prices rise in the same instant with the dollar, V has not intervened. If with a

rise of 20 per cent. in the dollar prices immediately go up 20 per cent, the rise of prices is directly due to the action of exchange. A rise in the value of foreign money signifies depreciation of national money and a fall in its marginal utility—that is why prices rise. Aftalion says: "If we now consider countries where flight from currency has incontestably existed, is it certain that there (at least) it is accelleration of V that determined prices? The quantity theory would affirm that facts which bring about the external depreciation of national currency, at the same time create such distrust of national currency that there is a rush to convert it into goods, and that increase in the velocity of circulation thus bears the responsibility for the rise of prices. But is it not more simple to say that external depreciation has as its consequence internal depreciation of the national currency, *i. e.*, a rise of prices? Why should the variation of V be a necessary intermediate link between the two depreciations?"[11]

No such intermediate link exists when internal depreciation is the immediate result of external depreciation, as was the case in Germany in the post-war inflation period. In the illustration of the barber and his client (it is more than an illustration) P varies as soon as exchange varies; P varies before V (*P varie des que varie le change. P varie avant change*).[12]

Let us take another case in which prices rise owing to the direct action of exchange and there is not the least suspicion of any 'flight from currency'.

Between December 1921 and December 1923 the circulation in France increased about 4 per cent., the price of dollars in francs increased 51 per cent. and prices rose 40 per cent.[13]

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(11) *Aftalion*, loc. cit. Pp. 136-37.
(12) *Ibid.* P. 137.
(13) *WTG.* Vol. II. P. 380.

The rise of prices cannot be attributed to the increase in circulation, for it was very slight; nor was there any contraction of production. That exchange was the principal factor at work is shown by the fact that the prices of imported goods rose first, and to the same extent as the dollar. Next there was a rise, smaller in extent, in the prices of articles of export. Finally, the prices of domestic goods were affected—the rise in their price was half of the rise in the case of exported goods.

The manner in which prices rose clearly shows that the movement was not due to any internal factor such as a change in V. If the rise of prices was due to increased velocity of circulation it should have been equal in the case of domestic goods and articles of exports and imports. The fact that the prices of imports showed the greatest rise suggests that the movement of prices was 'from outside inwards' (*du dehors au dedans*)[14]. Secondly, there was complete absence of panic or distrust of national currency. So far from there being any distrust, there was some actual hoarding of currency: This is very different from 'the flight from currency' which increases the velocity of circulation and thus the effective supply of money.

The direct action of exchange in bringing about a considerable rise of prices when production has not decreased, V has not increased, and the quantity of money in circulation has practically remained unchanged, is a puzzling phenomenon. What is its explanation ?

THE INCOME THEORY.

According to Wieser, the value of money, as of goods, depends upon the importance attached by each individual to the final unit in his possession. But two things have to be noted : (1) the value of money is indirect, derived from its

(14) *Aftalion*, loc. cit. P. 133.

purchasing power in terms of goods; and (2) the last unit of money with which we are concerned is the last unit which the individual can effectively use for the satisfaction of his wants in a given period of time. Since wants are subject to the law of diminishing utility, it follows that the utility of money is subject to the same law. The marginal utility of money rises or falls as income decreases or increases. If income in terms of money increases, goods remaining the same, the marginal utility of money falls, and people are disposed to give more units of money for the satisfaction of the same want. Prices, thus, tend to rise.

It may be emphasized that the explanation of the value of money in terms of marginal utility never ignores the indirect nature of the demand for money. Wieser in his *Theory of Social Economy* defines the value of money as "the significance attaching to a unit of money because of its relation to a unit of utility"[17]—literally, the value of money is *Geltung* or significance which accrues to a unit of money in virtue of the relation in which it stands to a unit of utility,—(*die Geltung....welche der Geledeinheit kraft des Verhaltnisses zukommt, worin sie zur Nutzeinheit steht).* Demand for money, then, is not like demand for houses. Those who want houses to live in, or to occupy, are interested in the utilities which the occupation or holding of houses yields directly. Money is held to be spent, and a significance attaches to money because it is spent. Prof. Cannan is responsible for the novel idea that demand for currency is a demand to hold, like that for houses : "The demand which is important for our purpose is the demand for currency not to pay away again immediately but to *hold*"[18]. Let us assume that all the money in a country is *held*, like houses. Why, there would be no value of money to discuss, for there would be no prices then.

(17) *Social Economics*, P. 263.
(18) *Money*, 5th ed. P. 72.

I confess my utter inability to understand the concept of a demand for money which is divorced from its purchasing power—a demand for currency (unless it is the miser's demand) to *hold* for its own sake. "A railway ticket is desired for the sake of the journey over which it gives control"—I am glad to be able to quote the high authority of Marshall for this statement.[19] Demand for a railway ticket is not a demand to *hold*. I shall have to buy a railway ticket to Lahore at the end of this course of lectures. Suppose after buying this ticket I do not use it as railway tickets are meant to be used, but hold it as houses are held by those who occupy them, *i. e.*, I sit down on the railway platform hugging the ticket. I should never reach Lahore, and people would begin to suspect that I was not quite right in the head. A house and a railway ticket are two different things: one is an end in itself and the other is a means to a further end. Money is not an end in itself; it is a means to a further end.

The point is simple and Prof. Cannan must know it. Only he has used a bad illustration and failed to make his meaning clear. What he probably means by *holding* money is keeping something of the nature of real balances, k in Keynes's equation, $n=pk$ (ignoring credit). But this k is not divorced from purchasing power, while the real balances in Prof. Cannan's mind seem to possess utility in their own nature, like houses.

Having understood that demand for money is indirect, like that for a railway ticket, and that money is subject to diminishing utility for the same reason (in as much as its utility is the utility of the goods it buys) let us proceed to consider the direct action of exchange on prices.

When foreign money rises in value, prices of imported goods go up because of the depreciation of national money.

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(19) *Money, Credit and Commerce*, P. 38.

It is not nessary to labour the point. The depreciation of the franc in 1920-24 was the direct cause of the rise in the prices of imported goods.

But why did the prices of domestic goods rise? The rise must have been due either to increase in demand, or decsease in supply. Between 1922 and 1924, ignoring minor fluctuations, the supply of goods in the home market (France) rather tended to increase. Demand must therefore have increased. This is indeed the explanation, but the increase in demand was made possible by the increase of income, reckoned in national money (francs).

The rise in the value of the dollar increased the income of importers, since the stocks imported before the rise of the dollar became more valuable in national money, and also the income of exporters, since the same volume of exports now represented a higher value in terms of francs. Finally there was an increase in the income of Frenchmen who had invested money abroad. Prices rose on account of this increase of income, and gradually the rise of prices became general. "Those who have control over a larger income come to the market ready to buy more goods at the same price or the same amount of goods at a higher price. Their increased demand becomes the motive force for making the rise of internal prices general."[20]

Both in his book *Monnai, Prix et Change* and in his article in Vol. II of *Die Wirtschafttheorie der Gegenwart*, Aftalion draws attention to the chief points of difference between the income theory and the quantity theory. They are:

(1) The quantity theory recognises only one cause of price changes, changes in the quantity of money. The income theory recognises a second powerful cause which may bring about a change of prices when the quantity of money is almost unchanged—the movements of exchange.

(20) *W T G.* Vol. II. P. 385.

2. Secondly, according to the income theory, there can not be any precise relation between a given change in the quantity of money and prices, or between income and prices. This is because an increase of income does not act automatically or mechanically on prices, but through the desires of individuals. On account of the psychological character of the factors in operation, the result of the same increase of income may be very different in different countries, or in the same country at different periods of time. How much would, a 100 per cent increase in circulation, which increases incomes directly by 33 per cent, raise prices ? "It cannot be determined", says Aftalion. "May be 60 per cent. May be 100 per cent. May be 120 per cent."[21]

Psychological factors thus explain why a given change in the quantity of money does not bring about an exactly proportional change in prices. The value of money to each individual is different from what it is to another, just as the value of an orange, an egg, or a musical instrument, say a *sitar*, to me is not the same as it is to you. When incomes are changing, scales of individual valuation of money change. It is impossible to forecast in mathematical language the combined effect on prices of changes in millions of scales of individual valuation.

3. Thirdly, the quantity theorist regards prices as wholly an effect. In Fisher's equation P's role is entirely passive. According to the income theory P may abandon its passive role when a change in income begins to work on it. A rise of prices, due in the first instance to increase in income, may become a cause of increase in the quantity of money in circulation and of the velocity of circulation.

The income theory is open to a serious objection. The value of money to an individual depends on the purchasing power of money, or the price level, while, according to the

(21) *Aftalion*, loc cit. P. 173.

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income theory, the price level itself depends on individual estimates of the value of money. Are we not reasoning in a circle? The explanation is as follows. In the beginning the value of a piece of money depends on its value as a commodity, *i. e.*, a gold or silver coin commanded value in exchange because it possessed intrinsic value. But in the course of time a coin ceased to mean so much gold or silver —it came to represent purchasing power, indeed it became purchasing power. The present value of money has therefore its roots in the past. Take a 10-rupee note. It has no intrinsic worth. The rupees into which it is legally convertible are token coins. But before the closing of the silver mints in 1893 the rupee was a coin of full value. It is probable that even when the rupee was a full-value coin it was looked upon merely as purchasing power. But let us assume that the value of a rupee to an individual before the closing of the silver mints was determined by the quantity of silver bullion that it contained. The value of the present paper currency may be thus derived from the value of the silver into which paper was convertible before 1893. At the root of the present value of money there lies the intrinsic value of the past, which has, of course, undergone many changes in the intervening years.

Secondly, when we think of the value of money to-day, it is in terms of prices of yesterday, as Aftalion says (*les prix d'hier*),[22] or earlier prices, as a Dutch economist puts it (*vroegere prijzen*).[23] When it is said that the value of money depends on income, all that is meant is that with an increase (or decrease) of income the marginal utility of money falls (or rises), taking the prices of yesterday as the basis of utility, which prices alone we know. Individual estimates of the value of money depend on known prices. Changes in these estimates, due to changes in income in money, or income in the form of goods (expansion or contraction of production) determine the

(22) *Aftalion*, loc. cit. P. 166.

(23) *Beginselen der Geldtheorie by* Dr. B. van Genechten (Leiden). P. 21.

prices of to-day (*les prix d' ajourd'hui*) or later prices (*latere prijzen*). No reasoning in a circle is involved here.

Individual estimates of the value of money change not only when money income changes but also when real income in the shape of goods increases or decreases. This is a point of some importance. The income theory assigns an equally important role in value determination to money income and real income; in other words, the marginal utility of money income may rise either because money income has decreased, or because goods, on which the income is spent, have become scarcer.

The quantity theory of money interprets all changes in prices in terms of money and money alone. Take, for example, the fall of prices since 1929. If we ask: "Have non-monetary factors played any part in bringing down prices"? —the answer that we get from some of the world's leading economists like Prof. Gustav Cassel and Sir Henry Strakosh is: "None whatever." Prices fell on account of the maldistribution of gold. In post-war years France and the United States imported gold heavily, which they did not use for the creation of more credit. The bottling up of gold by France and the United States did no good to these countries, but immense injury to others which had lost the gold. The basis of credit in these countries became narrower, and a contraction of credit followed which had, as its consequence, a heavy and continued fall of prices. The explanation of the greatest crisis in the world's economic history is thus in terms of money and money alone.

"Is it not possible for non-monetary factors to disturb the price level?" Gustav Cassel's answer is that they may disturb the monetary equilibrium and cause price changes, but it only means that "monetary policy has not been strong enough to offer a sufficient resistance to these disturbing factors." When the crisis came, if the quantity of money

in the shape of credit and cash had been sufficiently increased, the monetary equilibrium would have been maintained and prices would have remained stable.[24]

This is an essentially wrong view of the relation between money and prices. Suppose there is a severe and widespread famine and prices rise. In the famines of the past prices rose almost without limit. Is the rise of prices in a famine a monetary phenomenon? "A change in the general price level", says Gustav Cassel, "always presupposes a corresponding change in the total payments made, and therefore, in any case, changes in the supply of money, or in the use of the existing means of payment".[25] This is true. When the general price level rises in a famine there is a corresponding change in the total payments made. But we want to know something more: whether prices in a famine can be prevented from rising by the manipulation of money. It cannot be done. The rise of prices measures the higher marginal utility of goods that have become scarce. The marginal utility of goods can be lowered only by increasing their quantity, which shows that the rise of prices is not a monetary phenomenon.

The income theory recognizes that the marginal utility of income may be lowered by causes affecting not incomes but goods. A change of prices must always result when the marginal utility of income changes, but the marginal utility of income can be understood only in relation to goods, and therefore all changes which affect the supply of goods are as effective in altering the marginal utility of income as causes acting directly on income.

Prices rise in a famine because supply having suddenly become short, those with higher incomes bid more for food. In

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(24) *The Crisis in the World's Monetary System*, by Gustav Cassel, P. 50.
(25) *Theory of Social Economy*, by Gustav Cassel, Vol. II. P. 483.

the famines of the past the natural consequence of scarcity was heavy mortality. Those who were unable to pay the higher price of food, representing the new equilibrium of demand and supply, simply lay down and died, or, joining their hands, threw themselves into the Ganges, where, as the historian Badaonai puts it, they became the portion of the alligator of extinction.

It will be seen that a rise of prices due to scarcity has nothing to do with such factors as the quantity of money in circulation or velocity of circulation. Its simple and sufficient explanation is scarcity; inequality of incomes enables persons with higher incomes to secure the supply by bidding more for it.

Scarcity raises prices; plenty lowers them. Is the fall of prices on account of plenty a monetary phenomenon? As little as the rise of prices in a famine.

A heavy fall of prices occurred in the Punjab soon after its annexation. The harvests in 1846-49, with a few isolated exceptions, were remarkably favourable and there were also other causes at work which increased supply, *e.g.*, the establishment of peace and the return of large bodies of disbanded soldiers and discharged employees to agriculture. "The result of these different causes has doubtless been", says the first Punjab Administration Report (1849-50 and 1850-51), "that production has exceeded consumption, and hence that while an abundance of food exists, there is not a sufficient market to secure its sale at remunerative prices". Plenty became a cause of embarrassment both to the Government and the people. The fall of prices ruined the agriculturist and made it difficult for the Government to realise the land revenue.

How can such a phenomenon be interpreted in terms of the quantity theory? Would there be any sense in saying that prices fell in the Punjab in 1849-51 because the circulation suddenly contracted, or the velocity of circulation suddenly slowed down?

The heavy and continuous fall of prices during the past few years is not essentially different in nature from the Punjab agricultural crisis of 1849-50. The development of means of communication and transportation during the past three quarters of a century has resulted in a great widening of markets, but the fall of prices since 1929 is due to the same old causes: production has exceeded consumption and there is not a sufficient market to secure the sale of the increased output of farms and factories at renumerative prices.

Be it noted that production has not exceeded the limits of human consumption. The unsatisfied demand in the world for all kinds of goods is so large that even if the existing supplies of all things were suddenly multiplied ten, twenty or a hundred times by waving a magic wand, production would be still below the limits of possible consumption.

The fact of increase of production is incontestable. I do not propose to weary you by quoting figures of the world output of wheat, cotton, sugar, tea, tin or other goods. The increase of production in recent years has been carefully investigated by individual writers and official and non-official bodies, and the facts are generally known and admitted. But it may not be without interest to mention the recent changes in methods of production. They are important enough to be called a revolution.

In fact we are confronted not with one but several revolutions. Mr. P. Lieftinck, in his contribution to Economic Essays in honour of Verrijn Stuaart,[26] speaks of two industrial revolutions. The first broke out in England at the end of the 18th century; it led to the substitution of machinery for hand-work, concentration of labour in factories, and mass production. We may call this a revolution in tangible industrial methods, which is not a literal translation of the expression used by Mr. Lieftinck (*tastbare hulpmiddelen van bedrijfsvoering).* This revolution gradually spread from

(26) *Economische Obstellen* (Haarlem. 1931).

one country to another and was responsible for a great and world-wide development of the capitalist system. What specially deserves attention is the industrialization of backward countries during and after the war and the rise of what the Germans call 'Coloured Capitalism' (*gefarbte Kapitalismus*). The revolution in tangible industrial methods, *i. e.* the substitution of machines for hand-work, increased the world's productive capacity.

The second revolution is concerned, not so much with tangible as intangible things. Tangible industrial methods are embodied in time-saving and labour-saving machines. But time and labour may also be saved by the adoption of intangible devices—improvement in organisation, scientific management and greater co-operation between labour and capital. The result is increase in efficiency, or again an increase in productive capacity.

As yet we have witnessed only the first effects of the second revolution. More is coming later.

To these two revolutions we may add a third—the use of power-driven machinery in agriculture, or the rise of scientific farming. Our agricultural methods to-day, on the whole, are neither more nor less scientific than what they were 2,000 years ago, but agriculture in the West has been mechanised, and the fullest use is being made of biological knowledge to increase the quantity and improve the quality of agricultural production.

The combined result of all the three revolutions has been to completely upset the old equilibrium of demand and supply, or 'the monetary equilibrium' of Gustav Cassel. In the words of Mr. P. Lieftinck, they have given rise to a conflict between supply and demand (*Het conflict tusschen de 'vraag' van de vraag en de 'vraag' van het aanbod*).[27] How can this conflict be resolved ?

(27) *Economische Opstellen*, P. 176.

There would be no occasion to speak of any such conflict if effective demand, *i. e.*, demand accompanied by ability to pay the price, increased side by side with the increase of production. If, for example, with a 25 per cent., increase in supply, total demand also increased 25 per cent., prices would not fall. What is the cause of the relative lack of flexibility shown by demand ?

The answer is furnished, not by any factor of the equation of exchange, but the inequality of incomes. The world may be divided broadly into two classes, the 'Haves' and the 'Have nots'. To the 'Haves' the marginal utility of income is low ; to the other group it is high.

If now a great increase in production took place owing to advance in technical methods of production, while the purchasing power of a very considerable majority of the population was very limited, and those who possessed great quantities of purchasing power were not able to absorb the whole of the increase in production, prices must inevitably fall.

The unequal distribution of incomes is ultimately responsible for the catastrophic fall of prices, and the remedy lies in a better system of distribution.

SPANN'S "UNIVERSALISM" AND GUSTAV CASSEL'S "PRICING PROCESS."

LECTURE VI.

We have seen that the conflict between cost and utility has been resolved by economic monism in as much as cost can be interpreted in terms of utility. We have also seen that the principle of marginal utility has been employed not only in explaining the value of all goods and services, including land, but the value of money itself, or the purchasing power of money. The aim of economic monism is to furnish a unified explanation of value in all its forms, and it does so in terms of demand or utility alone.

This explanation is not accepted by all economists. And it may be worth our while to study the point of view of the leading critics.

The theory of marginal utility has been subjected to severe criticism. It is interesting to find that sometimes the same critics advance arguments against it which are mutually destructive. The great German encyclopaedic work on economics, *Handwoerterbuch der Staatswissenschaften* (Vol. IV. P. 1207 *et seq.*) gives a long list of objections. It has, for example, been said that the theory is too complicated to give a clear explanation of life or empirical reality, which is far simpler, while at the same time it is urged that life or empirical reality is too complicated to be comprehended by exact laws. Some critics assert that the theory is psychological, and the same critics insist that the theory is not based on the science of psychology. The theory has been condemned as bourgeois-liberal-capitalist, and at the same time it is argued that it is a theory of socialist not of modern exchange economy. It is accused of mixing up economic theory with economic practice, and at the same time of ignoring life

altogether, so that it is of no use in devising measures to lessen or remove social distress. It is supposed to be incomplete because, according to some, it explains consumption, not production and distribution; according to others, distribution but not production; or consumption and production but not exchange; or the value of goods but not the value of money; or the value of rare goods but not that of reproducible goods.

Much of this criticism refutes itself. But the theory is (1) individualistic and (2) subjective. Subjectivity, however, does not imply arbitrariness of the causes at work in the determination of value—subjective causes of economic actions may be controlled by exact (objective) laws.

The individualistic character of value is stoutly denied by many critics of the theory, among others by Othmar Spann, the founder of Universalism. Spann definitely rejects marginal utility and substitutes for it his Law of Equivalence.

Spann's doctrine of Universalism has a special meaning. It has nothing to do with that economic perpetualism and cosmopolitanism which asserts the universal validity of economic concepts in all times and places, and is thus opposed to the idea of economic relativity. Spann's *Types of Economic Theory* gives a brief account of Universalism in his own sense —that is of the attempt to build value from top downwards. So far as I am aware no other work by Spann is available in English.

The present trend of thought on the subject of value, so far as I am able to judge, is towards the interpretation of value in an individual, not social sense. I will come back to social value later. But before we proceed to examine Universalism it may be well to draw attention to the individualistic treatment of value by the leading exponents of the theory of marginal utility.

Given the supply of a thing, value depends on the utility of the last unit—not to society as a whole but to an individual

consumer, known as the marginal buyer. The market is composed of a number of individuals. Each buyer has his own scale of valuation—as Genechten[1] says: "the valuation system of each person is independent." What the value of a thing is to me it is not to you. We compete with each other and, under competition, there can be, at any time, only one price for the same commodity (all units being of the same quality) in the same market. This price, the result of competition, measures the marginal utility of the supply to the marginal buyer. Value is thus the outcome of individual valuations. There is a total supply and a total demand, but we are not entitled to say that society as a whole takes part in value determination. "It is always individuals who appear in the market in the role of buyers and sellers, never", says Ludwig Mises, "*die Ganzheit*" (the Whole, or Society).[2]

Aftalion makes a distinction between the individual and the social value of goods. Individual value depends on individual valuations and social value on the curves of total supply and demand. "There is evidently an intimate bond between the individual value of goods founded on their utility and their social value as determined by the interaction (confrontation) of the curves of supply and demand".[3] One may talk of social value in this sense, but it is a vague concept.. The marginal utility theorist is concerned not so much with the curves of total supply and total demand as the actions of individuals under the impulse of individual desires. He studies the behaviour of individual atoms—hence the charge of atomism against the theory. But, argues, Prof. Schumpeter, individualistic methods of work are not incompatible with social conclusions, that is, we may reach conclusions valid for the whole society by examining individual behaviour. "The

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(1) *Beginsclen der Geldtheorie*, P. 12.
(2) *W T G*. Vol. II, P, 313.
(3) *Monnai, Prix et Change*, P. 228.

activity of an individual in itself", he says, "is a matter of as much indifference to us as is the colour of an individual's hair to an ethnologist".[4] But the ethnologist can observe the colour of a people's hair, not through the people as a whole, but through individuals alone.

In *Economische Opstellen* Prof. De Vries devotes a long article to the concept of social value and concludes that economic theory and the subjective theory of value have no use for this concept. It should disappear for good from the domain of theoretical analysis. Society as '*waardeerend subject*', as a person that values things, does not exist.[5]

Well, if society values nothing, we are left only with individual atoms of whom society is composed. The subjective theory of value thus works from bottom upwards, from individuals towards society.

Spann's Universalism begins, not from the individual but from the society, not from the part but the whole. What is a Whole? It may be conceived in two ways: (1) a summation of individuals, like a heap of stones, which is a whole but not a unity, each stone having its own independent existence. To Spann, a whole in this sense has no meaning. The conception of a whole as a collection of autark or autonomous entities is an individualistic or atomistic conception. A second conception of a whole is that of organic unity. An organism is composed of individual cells but it is not merely a collection of cells; it is something (*etwas*) over and above this—a unity, a Whole. "The Whole or 'Wholeness' is then what imparts unity; the Whole is therefore not a sum of individuals but a unity of those of which it is the sum" (*Einheit der Summanden).*[6] Another expression used by Spann to convey the idea of a Whole which is more than its parts is *Struktur*. It will be seen that Spann's conception of society

(4) *Das Wesen und der Hauptinhalt der theor. Pol. Oekonomie*, P. 96.
(5) P. 332-33.
(6) *Fundament d. Volkswirtschaftslehre*, P. 340.

is psychological, I may even say, metaphysical. One is reminded of the discussion of *Ganzheit* in Hans Driesch's *Grundprobleme der Psychologie* (p. 63 *et seq.*). I confess that I do not find it easy to grasp the idea of a whole which is more than its parts, but as Driesh says, it is an indefinable concept. In the psychological sense wholeness is a peculiar, indescribable interpenetration of factors in the formation of real experiences. The economic world, or human society in its economic aspect, can be called a whole because of the same peculiar, indefinable, indescribable interpenetration of factors constituting it. It follows from this that the elements composing a society co-operate to make the whole what it is, like the cells of the human body. Spann ignores the difference between the human and the social organism. Various organs of the body work together mysteriously for the good of the whole. Human society, on the other hand, is full of conflicts—the parts seem to be in a state of continuous war against each other. Before the Great War it was possible to speak of a *Weltwirtschaft*, or world economy. *Weltwirtschaft* has disappeared—the interests of the groups or nations composing the world economy do not always coincide. Is it permissible to speak of a single country or nation as a whole?—world economy is assuredly not one. Within each country or each nation, the conflict of interests is raging fiercely. Consider the relations between landlord and tenant, or between labour and capital. Is it not true that while the economic world shows much co-operation, friendliness, mutual trust and mutual interdependence, it is still subject to the biological law of survival of the fittest, of which war of one against another is of the very essence? Is it necessary to illustrate the pitiless exploitation of the weak by the strong in economic relationships? Is it not universally admitted that the interests of groups and classes in a society may be not only opposed to the interests of groups and classes but to those of society as a whole? Society is then a unity of clashes and conflicts!

The war of individual against individual, class against class is a fact—an incontestable fact. In what sense, then, I should like to know, is society an organic whole? Universalist philosophy (it is not economics), is founded on sentiment and romanticism, not reason.

The whole being one and indivisible, it follows that all parts are of equal importance (*gleichwichtig*) and equally indispensable (*gleich unentbehrlich*). This is Spann's concept of Equi-valence (lit. equal importance, *Gleichwichtigkeit*) which is to take the place of marginal utility. What is the meaning of equi-valence? Spann gives an illustration. The health and welfare of an individual, both in the bodily and the spiritual sense, depend on the cooperation of all organs, the heart, lungs and even the little finger. The service or achievement (*Leistung*) of even the little finger is indispensable[7]. That is how Spann establishes the equal indispensability of all parts. Well and good. Hair grow on the top of one's head. They are also parts of the organism. One may certainly talk of 'achievements' (*Leistungen*) of the hair, as of 'achievements' of the little finger. As we grow old the hair on the top of the head begin to fall off. We part with them with regret. But suppose with the hair an eye, an ear or the nose disappeared. That would be alarming. The disappearance of the heart would be the end. Whatever the value of the 'achievements' of the hair on the top of the head, they are not indispensable like the heart or the lungs. Nor are all parts of a society equally important, or equally indispensable; if they were, there would be less inequality in payments for different 'achievements'. Spann is, of course, aware of this inequality. How does he explain it? Although all parts of a whole are equally important and indispensable, their achievements, he says, may be graded into higher and lower. But while we can grade achievements,

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(7) *Probleme der Wertlehre*, I. P. 207.

we cannot quantitatively express the degree of highness or lowness[8]. We cannot say that the heart is 1112 times as important as the little finger, or that a general is 900 times as important as a sergeant major, or that the Pope is 1000 times as important as a country pastor. This is because they are parts of a whole and are, therefore, equally indispensable and equally important. In the economic world there are higher and lower achievements, more important and less important achievements, but still each achievement has a peculiar nature of its own. Each makes a peculiar contribution to the value of the whole, from which its own value is derived. Hence the difficulty of a quantitative measurement of achievements. Hence the view that in explaining value we must proceed from the whole to the parts, not from the parts to the whole; from the objective to the subjective, not from the subjective to the objective. To quote Spann: "Wherever one may look in the economy (*Wirtschaft*), the same thing is true: the grade of achievement of a whole (*Gebilde*) comes first and the magnitude of individual achievement is derived from it. The magnitude of achievement is derived from the achievement. Hence the following maxims:

"Totality (wholeness) of achievements comes before individual achievements (the whole comes before the part).

"Achievement itself comes before the magnitude of the achievement.

"Totality (wholeness) of achievement-magnitudes (total achievement, achievement grade of a whole) comes before the achievement magnitude of an individual part."[9].

To say that goods are valued according to marginal utility is to imply that goods are valued according to the utility of the parts. "No", says Spann. "Goods are valued according to the achievement grade of the whole, in conformity to equi-

(8) *Probleme der Wrctlehre*, P. 216.
(9) *Ibid.* Pp. 220 21.

valence (equal importance): in other words, goods are valued as parts of a total achievement according to equi-valence (equal importance)."[10]

Spann tells us in his *Types of Economic Theory* that Liefmann has understood his teaching so little "that he actually describes as 'non-sense' the proposition, 'the whole comes before the part', which derives from Aristotle."[11] I am inclined to agree with Liefmann. I suppose our graduates are a part of some wretched whole, and in that capacity are as important and indispensable as any other part. One may talk of their 'achievements' in connection with a total 'achievement' to which they contribute. Now the point is that as their supply has increased, the value assigned by society, our whole, to the achievements of a graduate has fallen. Why? Graduates as a class have not become less important or less indispensable than before—in fact, the larger the supply of a factor or agent of production, the greater is its total utility, or, as one may say in the language of Universalism, the greater is its 'achievement'. The fall in the rate of payment to that agent is explained by the fall in its marginal utility, not in the value of total achievement or the achievement magnitude of that factor or agent, however one may derive it.

I propose to leave Spann here. Prof. V. Stuaart tells us that Universalism is not appreciated in Holland.[12] Perhaps Spann would say that Dutch economists, with very few exceptions, have failed to understand his teaching. I am in the same unhappy position. Spann's system is a perfect rigmarole of equal importance (*Gleichwichtigkeit*), over-importance (*Mehrwichtigkeit*), under importance (*Minderwichtigkeit*), joint importance (*Mitwichtigkeit*), achievement (*Leistung*) and joint-achievements (*Mitleistungen*), in which every thing is clear except the author's concept of value.

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(10) *Ibid.* P. 221.
(11) P. 284.
(12) *W T G.* Vol. I. P. 149.

GUSTAV CASSEL.

Gustav Cassel cuts the Gordian knot of value by ignoring value altogether. There is no such thing as value. What we know is prices alone. The pricing process completely ignores both utility and real cost.

"The object of all activity is to satisfy human wants", thus begins Cassel's *Theory of Social Economy*. But economics is not concerned with all wants. Some wants can be satisfied to an unlimited extent, *e. g.*, the desire for breathing. In most cases, however, the means for satisfying wants are scarce relatively to the wants themselves. "Only scarce means are economic means".[13] Economics is governed by the principle of scarcity, and "the special task of economy is to equate wants with the available means for their satisfaction in the way which is most advantageous." This is an important idea which runs through the whole discussion of the pricing process: it is 'the task' of economy to adjust demand to available supply. Price is the mechanism of this adjustment.

We can talk of prices only in a money economy. Economic theory is concerned with a money economy alone. Economic theory in the past 'felt bound to deal with an imaginary exchange economy without money'. Since there are no prices in an exchange economy without money, economic theory busied itself with an elaboration of "the very indefinite and varying idea of value"[14] and the measurement of the economic significance of goods by the intensity of human desire for them. "On such fictions was it desired to construct the whole of economic theory, and 'this subjective theory of value' was held to be a great advance in economic science." Was it really an advance? No. Economics had strayed from the right path. The whole method of dealing with economic

(13) *Theory of Social Economy*, cited later as *Cassel*, I. P. 5.
(14) *Cassel* I. P. 48.

phenomena was wrong, and is it surprising that wrong conclusions were reached? A fundamental mistake was the exclusion of money from the study of economics of exchange. "In practical economic life the intensity of desire enters into consideration only so far as it affects money valuations."[15] Therefore a theory of value which ignores money must get into difficulties. In a money economy values are always expressed in terms of a common measure. "Values are then replaced by prices, valuation by pricing, and we have a theory of prices instead of a theory of value."[16] Economics is thus from the beginning a theory of pricing. The theory of value may be discarded.

If the theory of value goes, marginal utility goes with it. In fact Cassel has declared that the theory of marginal utility is "superfluous in economic science."[17] The theory does not in any way extend our knowledge of the actual pricing process, and "it is, in any case, superfluous for the theory of prices." Having condemned marginal utility as a useless concept, Cassel refers to "the childish pleasure" taken by economists in deducing the nature of demand from the principle of diminishing utility.[18] When he is solving the riddle of prices the economist is not concerned with the nature of demand. For a solution of the problem of prices it is sufficient to assume that, given the prices, demand for each commodity is fixed. What interests us is the extent of demand at a given price; the psychological processes underlying this fact are interesting, but they "lie outside the realm of economic theory proper."[19]

That is how the concept of marginal utility as a part of economic theory becomes 'superfluous.'

The concept of consumer's surplus is equally superfluous. One may be able to show that the value of a cousumption

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(15) *Cassel*, I. P. 49.
(16) *Ibid.*
(17) *Cassel* I. P. 80.
(18) *Cassel* I. P. 81.
(19) *Cassel* I. P. 80.

amounting to £100 is in fact £150. But what is the use of such calculations? They reflect no psychological processes which might be of importance from the viewpoint of prices."[20] The pleasure that any one may derive from contemplating the difference between the price that one would have been willing to pay for a thing and the price actually paid, is unreal and imaginary, and of little account so far as the pricing process is concerned.

Some of the tendencies in recent economic thought are indeed startling. Max Planck, the author of quantum mechanics, has written a book which bears the title "*Where is Science going?*" One of these days one of us may well write a book with the title, "Where is Economics going?" The old, time-honoured concept of real cost, or efforts and sacrifices, as a determinant of value went first, and now value itself has been attacked. It seems as if nothing can be saved from the old lumber of economic theory except supply and demand. But no special knowledge of economic theory is needed to explain prices in terms of supply and demand. The peculiar significance of economics consists in the analysis of the forces at work behind supply and demand.

The pricing process is concerned only with the equilibrium of supply and demand. But it is pertinent to inquire why demand is what it is at certain prices, why it extends as the price falls and why it contracts as the price rises. No answer can be given to these questions without mentioning utility. Secondly, there is a law governing the distribution of a commodity between different uses—it is of fundamental importance in valuation or pricing, for pricing is only valuation in terms of money. Cassel says: "The principle of substitution requires that there shall be chosen, from among suitable quantities of the various factors or groups of factors of production, the quantities which are the cheapest at the given

(20) *Cassel* I. P. 84.

prices".[21] But why does the principle of substitution require substitution? Is that any explanation of substitution? I am a consumer and I daily substitute what I regard more profitable for less profitable consumption. Why do I do so? The answer is that by doing so I get the greatest amount of satisfaction from spending a given income. The explanation is in terms of utility, and it pre-supposes the law of diminishing utility. Pricing cannot be understood without the principle of substitution.

Cassel would say that substitution is determined by prices. The pricing process always begins with prices —every thing else comes later. For example: "Given a definite scheme of prices, the individual is generally compelled to restrict the satisfaction of his wants in various directions, although the restriction need not affect all his wants"[22]; or, "If prices of all commodities are given, we can assume that all the factors which influence the individual in determining his consumption are fixed"[23]; or, "Thus in the exchange economy the principle of scarcity signifies the necessity, by the pressure of prices, to adjust consumption to a relatively scarce supply of goods"[24]. The principle of scarcity deserves attention. A definite object, role or task is assigned to it; the restriction of demand is 'the object of pricing'[25]. "The fixing of prices has the social economic task of so restricting the demands for goods that they can be met with the available means".[26]

I beg leave to suggest that what Cassel takes as the starting point for his analysis is really a final result. We have to explain how prices are determined; we cannot assume them as given. Given the prices, substitution works in one way; given other prices, substitution would work in another way. All that is exceedingly simple. But how did these

(21) *Cassel* I. P. 108.
(22) *Cassel* I. P. 77.
(23) *Cassel* I. P. 75.
(24) *Cassel* I. P. 74.
(25) *Cassel* I. P. 74.
(26) *Cassel* I. P. 66.

prices come to be given ? Cassel's answer would be that since wants are many and means of satisfying them scarce, prices come into being to restrict consumption so that supply is adjusted to demand—this is the 'object' of prices, or their 'task'. But who has assigned this 'task' to prices ? It should not be forgotten that we are discussing prices under competition, or when they are determined by the free play of supply and demand. Suppose our Government took over all production and distribution, and nothing was sold except by Government order and under Government control. In such a society all prices would be directly fixed by Government and the object of Government would be so to fix them as to adjust demand to supply. If the wheat crop partially failed, it would be necessary to fix the price of wheat by authority at a higher level so as to restrict demand. Pricing in a planned economy has a definite object, a definite task. It is otherwise in an economy based on free competition. Suppose there is a famine and prices rise. We cannot explain the rise of prices by saying that the task of prices is to restrict consumption so that millions may die of starvation, as they used to do in India not long ago. Both the rise of prices and its undesirable consequences are the final result of a process which cannot be understood in terms of prices alone.

The concept of marginal utility is indispensable to economic analysis, for it explains why prices are what they are. It is not more superfluous in economic theory than is the Prince of Denmark in the play of Hamlet.

Marginal utility theorists begin with an exchange economy without money, and there is abundant justification for this procedure. Historically valuation comes before pricing. Valuation is as old as human society ; pricing is a later growth. Valuation is the problem of a simple barter economy ; pricing that of a complex money economy. But a money economy gradually grows out of a barter economy. Evolution is from the

simple to the complex, and the method of science is from the simple to the complex. Take the human eye as an example. It is a highly complex structure (though not without its defects) and so wonderfully adapted to the ends it serves that it was used by theologians to establish the existence of God—God must have made the human eye to enable human beings to see and admire His works. But complex as the human eye is, it has evolved from very humble beginnings. The amoeba shows crude light sensibility. The next step in the development of the eye is found in other protozoa where, not the whole body (as in the case of the amœba) but part of the body is specially irritable. From this unspecialized light sensibility to the evolution of sight cells, the collection of scattered sight cells in many-celled creatures into primitive eyes, and finally to the development of the human instrument of vision, is a very long step. But in order to understand the human eye and its imperfections of detail, it is necessary to know how the eye has evolved. Similarly it is not wrong to begin the study of pricing with valuation in a barter economy, for we may find that the more complex phenomena of a price economy can only be properly understood in the light of the simpler phenomena of barter.

Barter is not dead. In most Punjab villages wages are still paid to *kamins* in kind—1/12th of the share of the total produce for picking cotton to women labourers, or one seer per maund of *shakkar* produced to *jhoka* who looks after the furnace when *shakkar* is made. Suppose we took Cassel into a Punjab village and asked him to explain these payments. He would refuse to take cognizance of them. He is only concerned with the pricing process. Till recently many of our villages were more or less self-sufficient. Even to-day villages in the outlying parts of Kashmir, *e. g.* Baltistan, are practically self-sufficient. With the exception of safety matches, kerosine oil and one or two other things they buy nothing from the outside world—I speak from

personal knowledge. There is little money in circulation and exchanges take place in the form of barter. These villages present the problem of valuation, for whenever any exchange is effected, *e. g.* wheat against dried fruit, individual valuations come into play. Why should economic theory refuse to study them? Their study is not only interesting in itself but is valuable in as much as it shows that the principle of valuation at work in a simple, self-sufficient village economy is essentially the same with which we are confronted in a highly complex price economy—subjective utility.

The theory of marginal utility is an explanation of value under all conditions, both simple and complex. We shall examine the relation of this theory to socialism later; here it will be sufficient to say that only the working of the law of marginal utility explains the new tendencies in economic organisation which will claim our attention in subsequent lectures. The law of marginal utility stands. It cannot be explained away either by Universalism based on the absurd concept of equi-valence, or the pricing process.

SOCIAL VALUE

Marginal utility theorists have, as we have seen, no use for the concept of social value. But it is a concept which deserves re-examination.

It is an old idea. J. B. Clark thus expressed it in his *Philosophy of Wealth:* "Market value is a measure of utility made by society considered as one great isolated being; market price is, of course, that measure expressed in terms of a common standard".[27] Again: "It is society, not the individual that makes the estimate of utility which constitutes a social or market valuation".[28]

What was Clark's conception of society as "one great isolated being"?

Permit me to use an illustration which is at least 2000 years old, an illustration borrowed from the Bhagwad Gita.

(27) P. 81. (28) P. 82.

In Chapter XI Lord Shri Krishna shows his Virat or Vishvrup to Arjuna. Arjuna sees one Infinite Form occupying the whole universe:

द्यावापृथिव्योरिदमंतरं हि
व्याप्तं त्वयैकेन दिशाश्च सर्वाः (XI, 20)

He is terrified and repeatedly cries 'Mercy':

प्रसीद देवेश जगन्निवास

The Lord in His Vishvrupa expounds to Arjuna the doctrine of *idam sarvam Brahm*, or of the All-in-One and the One-in-All. We are here not concerned with all that Arjuna saw: *e. g.*, sons of Dhritrashtra entering the flaming mouths of the Infinite Form. The Lord is the Father of the Universe; He also typifies Death. What interests us is the many mouths and eyes, many arms, thighs and feet, many bellies and many sets of teeth of the Infinite :

रूपं महत्ते बहुवक्त्रनेत्रं
महाबाहो बहुबाहूरुपादम् ।
बहूदरं बहुदंष्ट्राकरालं
दृष्ट्वा लोकाः प्रव्यथितास्तथाऽहम् (XI, 23)

Here is the Universal Consumer that we were seeking—society with many mouths, sets of teeth and bellies in the form of a great isolated being. It is by no means unusual to speak of a multitude as one person. For example, an audience is described as a hydra-headed monster. I have no difficulty at all in thinking of you all as one person. But if it is a monster that I have to deal with, it is a kindly monster. Of course you are not really one organism—each individual present in this Hall has his own thinking and valuing mechanism. That is why your views of marginal utility may be different. Nor is society an organism. That was Clark's mistake. He not only conceived society as 'one great isolated being' but thought that this being as a person estimated the value of all things. No such person actually exists. *Die Ganzheit*, to refer again to Ludwig Mises, never enters a market.

The market always consists of individual buyers and sellers. *Die Ganzheit* is a fiction. I agree. But I propose to show that it is a useful fiction and that value is determined by the utility of the last unit of a good to society as a whole, to *Die Ganzheit*, or to the consumer in his Vishvrupa or universal form.

According to the Austrian school price is determined by the marginal buyer. What kind of a person is this marginal buyer?

He is obviously a most important individual, to whom all others owe a deep debt of gratitude. I may be willing to buy an orange for one anna, but there comes along the marginal buyer who will not pay more than 2 pice for the same orange. Since the marginal buyer must be induced to buy an orange to equate demand and supply, the market price falls to 2 pice, and all buy and sell at the same price.

Prof. De Vries definitely rejects the concept of social value on the ground that it does not mean anything but subjective value in the case of a definite person (*een bepaald persoon*), *i. e.*, the marginal buyer. What reasons have we to assume, he asks, that subjective value to the marginal buyer is equal to social marginal utility? "That he (marginal buyer) occupies a certain strategic position in pricing (*een zekere strategische positie inneemt bij de prijsvorming*) is well known and is sufficiently emphasized in the modern theory of value and price".

We thus learn that the marginal buyer is one definite person who occupies a strategic position in the market. I suggest that this marginal buyer who determines price on account of his strategic position is a fiction. The actual marginal buyer is a very humble individual, with very limited means, which compels him to put a high value on each unit of money that he possesses. Let us assume that his money is all earned. Then as he possesses very little of it, each

(29) *Economische Opstellen*, P. 332.

unit of money represents long hours of toil. The marginal buyer would like to buy oranges, wheat, a bicycle. When he gets an orange to eat, it tastes as sweet to him as to any other consumer (perhaps sweeter). He does not consume wheat but coarser grains, not because the consumption of wheat yields less utility to him than to those with more ample resources, but because the price is too high for him. He would like to ride a bicycle, and he would find it as useful a means of locomotion as any other owner. When is the marginal buyer able to gratify his desire ? Only when the price of an orange has fallen to one pice. Then he goes and buys an orange. No *dhobies* rode bicycles about ten years ago, when an ordinary machine cost about Rs. 100 and a good machine about Rs. 150. But when the price falls to Rs. 30, our *dhobi* enters the market and buys a bicycle. He is the marginal buyer in regard to bicycles. How does his action in buying a bicycle out of 100,000 determine the price of bicycles ? He enters the market *after* the fall of price. Before the fall of price to Rs. 30 he did not think of a bicycle at all. It is the fall in price which suggests to him the idea of buying one. He estimates the utility of the bicycle in terms of an existing price. The marginal buyer who estimates utilities without reference to an already existing price does not exist, any more than society conceived as "one great isolated being", or the universal consumer as a person with many mouths, sets of teeth and bellies.

Before the war there was a world market in wheat. What was the nationality of the marginal buyer ? Was he an Indian, American, a Frenchman or German ? At the present time there are national prices of wheat in different countries, so that in India the marginal buyer of wheat must be an Indian, in Germany a German, in France a Frenchman. But how shall we find this marginal buyer in our own country ? It should be easy to find him, for, as we are told, he occupies a strategic position in the market. But when we look for him

he is not there. It is only when, somehow, a price has been fixed that he sheepishly enters the market, and doubting and hesitating, buys a small quantity, a very small quantity—a seer of wheat.

If economic theory is concerned with reality, it must recognise that in the case of the marginal buyer price determines the calculation of utility, and that it is not utility that determines price. When it is said that the utility of a commodity to the marginal buyer determines price, reality is inverted. It is price which determines utility to the marginal buyer.

The marginal principle interprets value in terms of the least intense desire. This is correct when there are several units of a commodity and only one buyer. Price is determined by the utility of the last unit which satisfies the least intense desire. But when there are many buyers, it is incorrect to speak of the 'least intense desire' as determinant of value. At a certain price an individual called Z (marginal buyer) is willing to buy wheat, not because wheat yields less utility to him than to any other consumer, or because his want is the least intense, but because the marginal utility of money to him is the highest.

I am not arguing that value does not depend on marginal utility. It depends on marginal utility but marginal utility to society as a whole, or the utility of the last unit to society.

While the actual satisfaction derived from the use of a bicycle, a gramophone, a glass of *sherbet* or an ounce of *ghi* to the marginal buyer may be as great as to any other buyer (or even greater), as the supply of bicycles, gramophones, *sherbet* or *ghi* increases, the utility of the last unit to society as a whole must fall. Price therefore falls. Price is no measure of total social utility. With every change in the relation of total supply to total demand, the social marginal utility of the commodity changes and price changes accordingly.

Assuming that prices of different goods, at any time, express the social marginal utility of different goods, or the different values attached by society as a whole to the last unit of the goods concerned, how are social estimates of values converted into prices ?

The answer is : 'Through the force of competition'. The more perfect the competition in a market the more nearly will the market price coincide with social marginal utility. If competition is hindered by combination or monopoly, price may be maintained at a level higher than the utility of the last unit to society.

In this competition the marginal buyer occupies no strategic position, or any position whatsoever. The most important role is played by wholesale buyers and sellers. It is their anticipation of rise or fall in the utility of a good to society as a whole which raises or lowers the price when there is variation either in supply or demand.

Let us take an example. Suppose the price of wheat is Rs. 2 per maund. Then follows a heavy shower in December, and the price falls immediately to Re. 1-12. This is a common experience. Rainfall when it is good for the next wheat crop lowers the present price of wheat. Why ?

Does the price fall because, after the rainfall, a mysterious person, called the marginal buyer, who was unknown in the market before, suddenly makes his appearance in the market and declares that he will buy about a seer of wheat at Re. 1-12 ? Is such a declaration made by an association of marginal consumers ?

Actually what happens is a change in the anticipations of large buyers and sellers of wheat. It is thought that the next crop will be a good one. The utility of the last unit of existing supplies of wheat to society as a whole therefore falls, and this fact finds expression in the offer to sell and to buy wheat at a lower price. The wholesale market first registers the fall

in price ; the retail price falls after the wholesale price. That alone would show that in price changes the subjective valuation of a good by the marginal buyer is of little account.

The theory of social marginal utility derives the value of a commodity from the utility of the last unit to society. The value of the whole stock still depends on the utility of a part. We proceed from the part to the whole. Our doctrine is different from Spann's Universalism which proceeds from the whole to the parts.

Nor do we give up the individualistic method of investigation. Price is still determined by competition, by individual valuations. But we regard competition as an instrument through which the forces which have changed the marginal utility of a good to society express themselves.

Our concept of social marginal utility is not an absolute concept. Social marginal utility is relative to time and place.

Social marginal utility therefore does not provide any objective, unvarying standard of value. Even if we succeeded in connecting social marginal utility with labour or effort, it would be still a relative, though objective standard. For the amount of labour or effort required for the production of a commodity may change, and actually does change with the progress of science and invention.

The concept of social marginal utility is not to be rejected because it lacks absoluteness. Nothing in the world has absolute value. Things have only a relative meaning.

While criticising B. M. Anderson, Prof. De Vries contrasts the weight of a good with its value : "The weight of a good undergoes no alteration when it no longer stands in any relation to any human being, it is always the same objective magnitude".[30] A good, of course, has value only in relation to human wants. But weight itself is a relative conception.

(30) *Economische Obstellen*, P. 328.

Let us assume that this good, shall we say a ton of pig iron?—is moving in space at a high velocity, say 161,000 miles per second. The weight will increase to 2 tons. At 185, 900 miles per second the pig iron, which weighed one ton while at rest, will weigh 15 tons. No absolute standard of weight exists. Take size. A rod equal to a yard in length will get shorter when moving in the direction of its own length. It will measure about half a yard when its speed is 161,000 miles per second. At the speed of light, 186,300 miles per second, it will shorten to nothing. What would happen if anybody began to move (which is impossible) more swiftly than light ? The subject has been dealt with scientifically in verse :

"There was a young lady named Bright.
Whose speed was far faster than light.
She set out one day
In a relative way
And returned home the previous night."

This was a digression, but it should be clear that in a world of relativity all values, whether of physics or economics, are relative. The difference is one in degree not in kind.

The discussion of value in the present and preceding lectures shows the sad plight of our science. Is economics a science at all ? Has a body of knowledge any right to call itself a science when there is no agreement about its fundamental concepts ? Economists seem to have divided themselves into *Maths*, (schools), each *Math* obstinately maintaining its own point of view and ignoring the point of view of others. There are several *Maths*, as you will have gathered. First, there is the British or Marshall's *Math*, the *Math* of Dualists. Second, the Austrian *Math*, the *Math* of Monists. Third, Spann's *Math* which preaches the mystic, or, shall we say?—romantic doctrine of the organic whole. Finally, there is a popular Swedish or Cassel's *Math*, which I may call the *Math* of Realists. The leaders of the *Maths* fight, as our

Mahants do. The fight is unedifying—it disgraces both economists and economics. Will it not be a good thing if we invited the leaders of the different schools, and without letting them suspect what we intended to do with them, shut them up in a room in the Delhi University and kept them there without food and drink until they came to an agreement, not on all points, but at least on the fundamental principles of valuation ? If no agreement is possible, economics is not a science—it is aimless, general talk, without any connection with reality, masquerading as a science No. I do not take this view. I am certain that if the leading economists of the world were forced to re-examine their theories in the manner I have suggested, economic principles acceptable to all would be evolved.

Lecture VII.

FROM INDIVIDUALISM TO COLLECTIVISM.

We have studied the monistic tendency of recent economic thought. This, as we have seen, consists in the interpretation of the phenomena of value in terms of utility. The pricing process ignores both utility and cost of production. It also furnishes a unified explanation of economic phenomena. But the pricing process is no new discovery. It existed for Adam Smith and Ricardo, as it exists for the marginal utility theorists. Differences arise when we begin to analyse what lies at the back of the pricing process. And, as we shall see, important economic tendencies, which will now claim our attention, spring, not from the pricing process, but the subjective forces of which the pricing process is an expression.

Collectivism is the name given not to any one system, tendency or phenomenon, but a whole group of systems, tendencies and phenomena. For example, the movement towards combination is a collectivist tendency. On the one hand, we have associations of labourers and employers, whose object is to substitute collective for individual bargaining, and on the other, a tendency towards concentration and amalgamation which results in an increase in the size of the business unit. This tendency has affected almost all businesses, including banks. As is well known, banking in England is controlled by 'the big five', each of whom is a giant institution, with numerous branches and enormous resources. Cartels have made their appearance in India, but the combination movement has not yet affected Indian banking.

Cartels and monopolies, labour unions and employers' associations are a flat negation of individualism. Individualism rests on the principle of freedom of competition and freedom of enterprise. Combinations restrict individual

freedom. For example, an individual labourer may be willing to work for 6 annas a day, but if the standard wage demanded by a union is higher, the individual labourer is prevented from accepting a lower rate. The union limits his freedom; it deprives him of the right to settle the terms of employment individually with his employer. In our cotton mill industry there are unions of both employers and employees. On tea plantations, as in Assam, the coolies are unorganised, but the tea planters have powerful organisations, and in effect wage rates are determined by the joint-action of employers. Collective bargaining on tea plantations is thus a one-sided affair, and the system works against the coolie.

Similarly monopolies and cartels limit individual freedom. Cement factories in India have formed a cartel which regulates production, sale and prices. Members of the cartel are bound by the decision of their association. The individual producer surrenders his freedom for the common good of all.

Protection of home industries limits the freedom of the consumer. Under a *laissez faire* or free trade policy the consumer enjoys the right to buy in the cheapest market. Assuming that we levy duties only for revenue purposes, as was the case before the war, the consumer is under no obligation to buy the products of home industries. At the present time the *ad valorem* tariff is 25 per cent. and many classes of goods pay much heavier duties. In theory the consumer is still free to buy Indian, British or foreign goods. But the effect of protection and preference is to materially restrict his choice. Protection, whether in the national or the Imperial sense, is a departure from the principle of individualism.

The price of galvanized sheets is determined by mutual agreement between the Tatas and a British Syndicate. The share of the United Kingdom in the imports of galvanized sheets into India increased from about 71 per cent. in 1932-33 to about 87 per cent. in 1933-34. The effect of the preferential

duty at the same time was to reduce the value of imports from Belgium from Rs. 33 lakhs in 1932-33 to 9 lakhs in 1933-34. Galvanized sheets made in Belgium are cheaper than Britsh and Indian sheets, but we deliberately prevent the agriculturist, who is an important consumer, from buying in the cheapest market. The price to be maintained under the Ottawa Agreement, was Rs. 215 per ton. The Indian Tariff Board called this an 'artificial' price.

It is clear that the price of galvanized iron sheets in India is determined by principles other than those of individualism. Incidentally it may be stated that the Tariff Board is mistaken in thinking that paragraph 84 of the report of the Ottawa Delegation imposed an obligation on the Government of India to control the price of galvanized iron sheets. All that it says is this: "Special arrangements will clearly be necessary in order that the course of prices may be kept under constant observation". The Government of India, as suggested in this paragraph, have probably made arrangements for keeping the course of prices under constant observation. Probably throughout the first six months of 1933, when the price rose above Rs. 215, it was under the constant observation of the Government of India. That was all that the Government were expected to do – to steadfastly and constantly observe the course of prices, not to control the rise.

The example shows the new system of trade and prices that is now functioning. Before the outbreak of the war, it was not the duty of the Government to observe any course of prices. They just levied a light duty on imports for revenue purposes. The value and volume of imports, and prices were determined by international competition. At the present time foreign trade is subject to agreements, quotas and conventions—or its course is strictly determined by Government regulation.

Indian agriculture (ignoring the duty on wheat imports), is unaffacted by any collectivist tendencies. The peasant

grows what he likes, but the entry of our agricultural products into foreign markets is less free now than it was before the war. There is a talk of crop-planning in India, but it means little more than advising the farmer as to what is more profitable to grow. In other countries, however, *e. g.* the United States, there is more active interference with the freedom of the peasant. He is expected to conform to the Government policy of restriction of production, to destroy surplus crops and to sow a smaller area with certain crops. In Italy both agriculture and industry are directly controlled by the State through organisations working under the supervision of the State. The New Deal in the United States and fascism in Italy and Germany have severely limited the operation of economic individualism. In Russia, where every thing seems to be topsy-turvey, the State plans every thing. Collective action in production, distribution and exchange has taken the place of individual action. The individual has ceased to exist as an individual; he exists only as a member of a huge joint-stock company, which is the State.

The economic world which is emerging from the crisis is different from the old. The study of the tendencies which are shaping the course of economic development under conditions of restricted competition as in India and the United Kingdom, or where there is more open repudiation of individualism as in the United States and fascist countries, and finally under a full-fledged planned economy as in Russia, is of the greatest interest.

Individualism and laissez faire are convertible terms. What we are witnessing to day is the close of a great epoch, that of *laissez faire*, and the commencement of a new one, that of collectivism.

LAISSEZ FAIRE

The phrase *laissez faire* was first used by Marquis D'Argenson (1694-1759) in a letter addressed to the Director of *Journal Oeconomique* of Paris in April 1751. The Director

had published a review of Girolamo Belloni's *Dissertazione sopra il Commercio*, supporting Belloni's views. Belloni was an Italian. He died in Rome as a banker in 1761. For his *Dissertation on Commerce*, which eulogised the mercantile system, and was dedicated to Pope Benedict XV, the Pope conferred on him the title of Marquis. Marquis D'Argenson praised Belloni's book, but he did not accept the main contention of Belloni. "Removal of obstacles", said D'Argenson, "is all that commerce requires". The duty of Government is to appoint good judges, to suppress monopoly, to grant equal protection to all citizens and to provide stable money, roads and canals. That is all. D'Argenson believed that the general direction of trade could not be reduced to a science. To direct commerce it would be necessary to know not only the changing interests of other nations and of one's own country but details of quality and price of each article of merchandise. "Whoever was mistaken in regard to a single point, might err in regard to others; he would direct badly and would make bad laws. And who can pretend to possess this complete and universal capacity? It is related", D'Argenson went on, "that Sig. Colbert, having called many representatives of commerce to ascertain what might be done to encourage it, one of the most reasonable of them [*Legendre*] who was not a flatterer [*meno adulatore*], said in reply '*laissez nous faire*' [*let us alone*]."[1]

Belloni had argued in favour of using customs duties as a means of discouraging imports of foreign manufactures. D'Argenson maintained that such a policy sacrificed the good of the public for the sake of individual interests. "The passage of goods from one country to another," he wrote, "should be as free as that of air and water. The whole of Europe should be one general and common market; distance

(1) *Economia Politica Contemporanea* (Cedam, 1930; a collective work). See Vol. I. P. 31 et seq. Essay entitled *Sul Principio del 'liassez faire'* by Augusto Graziani.

and cost of transpotation give sufficient preference to the products of one's own country over those of others; when they do not (lit. *where they cease to be obstacles*) foreign goods are preferable to national goods"[2]. And the good Marquis thought that posterity, disillusioned by experience, would laugh at the attempts which were then being made by many European nations to reduce the principles of commerce to a system. He described this tendency as a disease.

How would D'Argenson characterise the modern system of trade? He would not be able to understand it. His own country regulates imoorts by means of quotas. And the disease has spread. It has assumed the dimensions of an epidemic. Do we laugh at the mercantile system ? Rather we laugh at laissez faire. Legendre's reply to Colbert was 'Let us alone.' The reply of the Tatas and Mody to the Government of India, if the same question were put to them, would be : "Heavier duties, and subsidies, if possible." The reply of the British manufacturer to the British Government would be: "More protection in the home market and more preference in the Empire markets." Laissez faire is at an end. J. M. Keynes formally announced its end in 1926-27.

The laissez faire doctrine forms the subject of an interesting essay by Prof. Augusto Graziani of the University of Naples in Vol. I of *Economea Politica Contemporanea.* Referring to Keynes's little book Prof. Graziani says that the expository portion is correct, but the theoretical portion raises doubts. Prof. Graziani tries to show that no economist of the front rank has interpreted laissez faire as a scientific principle, with the exception of Bastiat. Adam Smith defended the system of natural liberty, and explained the advantages of freedom of foreign commerce, but he did not deduce these advantages from any abstract principle of liberty; he did not favour absolute non-interventions in all matters. Adam

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Smith approved of the Navigation Acts. He defended the institution of a standing army and a system of public education, and expressed his disapproval of laws prohibiting the formation of labour unions. Adam Smith, says Prof. Graziani, has been mis-translated in Europe. For example, Adam Smith says: "By pursuing his own interest he [an individual] frequently promotes that of the society more effectually than when he really intends to promote it." A German translator of *The Wealth of Nations* omitted the all-important word 'frequently.' This, let me say, is a very small point. 'Frequently' in the sentence from *The Wealth of Nations* that I have quoted has not the same meaning which Prof. Graziani seems to assign to it. Adam Smith believed that an individual in acting in his own interest was 'led by an invisible hand to promote an end which was no part of his intention' (Book IV, Chapter II). Now it is difficult to understand why the 'invisible hand' should lead an individual, acting selfishly, to promote the general good of society only 'frequently' and not always. In the same section Adam Smith elsewhere says: "Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he may command. It is his own advantage, indeed, and not that of the society which he has in view. But the study of his own advantage naturally or rather necessarily leads him to prefer that employment which is most advantageous to the society." Individual advantage thus naturally or necessarily coincides with the advantage of the society. The statement is unqualified.

Adam Smith was an uncompromising advocate of free trade. He defended the Navigation Acts but on the ground of national security. If it is true that individual interest 'frequently' but not always coincides with national interest, it may be desirable, in some cases, to limit the freedom of importation and exportation. This is not the position of Adam Smith. "It is the maxim of every prudent master of

a family," he writes, "never to attempt to make at home what it will cost him more to make than to buy. The taylor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a taylor. What is prudence in the conduct of every private family can scarce be folly in that of a great kingdom." The affairs of a great kingdom are, therefore, to be managed like the affairs of a family!

Adam Smith does not use the expression 'laissez faire,' but he employs the same arguments in support of 'the obvious and simple system of natural liberty' as were used by Marquis D'Argenson in refuting Belloni. "The sovereign," writes Adam Smith, "is completely discharged from a duty in attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient: the duty of superintending the industry of private people, and of directing it towards the employments more suitable to the interests of the society." Marquis D'Argenson had argued that for such a purpose complete and universal knowledge was required, which no one possessed. Adam Smith's system of natural liberty assigned only three duties to the sovereign: (*a*) external defence, (*b*) maintenance of law and order, and (*c*) the duty of maintaining and erecting certain public works which no individual or small number of individuals would be led by self-interest to maintain or erect.

Like Adam Smith, Bastiat believed in the guidance of the 'unseen hand' in economic affairs. "I believe," wrote Bastiat, "that He who has arranged the material universe has not withheld His regard from the arrangements of the social world." And how can there be disharmony, or conflict of interests where God works ?

In these degenerate times when attempts are being made everywhere to reserve the national market for national

industry it is inspiring to read the candle-makers' petition to the Chamber of Deputees praying for the protection of their industry against the sun, which inundated their *national* market with free light: "We pray that it may please you to pass a law ordering the closing of all windows, skylights, dormer windows, outside and inside shutters, curtains, casements, bull's eyes, blinds; in a word, of all openings, holes, clefts and fissures through which the light of the sun is wont to enter our houses, to the detriment of the splendid industries with which, we flatter ourselves, we have endowed our country —a country which cannot now, short of ingratitude, abandon us to so unequal a struggle." The candle-makers were right. The struggle is unequal.

Bastiat provided the free trader with a 'little arsenal' of arguments. It is a pity that this little arsenal is so little used to-day.[4]

We read in the daily papers of 14th September 1934 that Japan was flooding the English market with 4 penny fountain pens, six penny cycle tyres and shilling cameras. These prices were inclusive of heavy duties paid at the ports of entry. "It is impossible for British manufacturers to meet this sort of competition," stated the Secretary of British National Union of Manufacturers in an interview.

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4. "*If you are told* :—Agriculture is the nation's nursing mother.
Reply :—What nourishes the country is most certainly not agriculture but corn...
If you are told :—It is indispensable that a great country should produce cloth.

Reply :—What is more indispensable is that in that great country the citizens should have cloth "

If you are told that Japan has the advantage of cheap labour, England the advantage of coal and iron and long experience, England, Germany and the United States the advantage of technical knowledge and skill, what does Bastiat teach you to say ?

"*In short, if you are told* :—Other nations have many advantages over us.
Reply :—By exchanging we get perforce a share in these advantages.

If you are told.:—With free trade we shall soon be inundated with bread, beef, coal and coats.

Reply :—We shall suffer neither from hunger nor cold.

If you are asked :—How shall we pay ?

Reply :—Don't let that worry you. If we are inundated, it will mean that we have been able to pay, and if we cannot pay, we shall not be inundated" (A B C of Free Trade).

But why should that worry the Secretary or the manufacturers? The consumer is most certainly benefited. And if the British market is inundated with cheap Japanese goods, it means that Britain is able to pay. When Britain is unable to pay, Britain will not be inundated. Isn't that simple?

The fate of the laissez faire doctrine, once so dear to the heart of Britain and now definitely rejected by her and the world, should teach Britain a lesson: to treat Indian opinion with less contempt than she habitually does. Let it be said to our credit or discredit that we never believed in laissez faire in trade and industry. When the cotton duties were abolished in 1878, India vehemently protested, but Indian opinion was characterised as 'obstructive and ignorant,' and disregarded. The 5 per cent. duty on cotton goods was held to be 'wrong in principle, injurious in its practical effect and self-destructive in its operation.' The principles on which the fiscal policy of Great Britain was based, we were told, were 'admitted axioms' by all who recognised the theoretic advantages of free trade. Where are those axioms now? New axioms have been discovered, axioms of preference. A discussion of Imperial Preference lies outside the scope of these lectures. But you will permit me to say that Indian opinion remains as 'obstructive and ignorant' on the question of preference as it was 50 years ago on the question of free trade. Time alone will show the wisdom or unwisdom of our having deliberately adopted a policy which benefits neither the Indian consumer nor the Indian producer.

Adam Smith and Bastiat regarded laissez faire as a system which enjoyed a Divine sanction. Later, in the 3rd quarter of the 19th century, when the theory of evolution began to exert a profound influence on human thought, free competition was acclaimed as an illustration of the working of Natural Selection in economics. Even the love of money, the

desire for personal gain, was glorified as a principle subsidiary to that of competition. The love of money was assumed to have played the same role in economic progress as sexual selection, according to Darwin, had played in biological progress. The parallel is interesting. The attitude of theologians to evolution is well known. At first they would have nothing to do with it. Evolution was in conflict with the Word of God. But Christian theology has now effected its reconciliation with evolution. The modern Christian theologian sees the Will of God behind the phenomena of evolution. The objection that evolution works of itself is met by supposing that the process may be indirectly directed, like a Gyro-pilot, by means of which a steamship can be automatically steered from New York to Mersey.

If evolution is God's evolution, or God's means of realising His biological ends, free competition and love of money must be Divine instruments for realising God's economic ends.

The parallel does not end here, as we shall presently see. More recent biological studies have shown that the Devil also has a hand in evolution. Evolution does not always signify progress. There are also ugly features of evolution, *e. g.* parasitism and degeneration, to mention only two. An eminent biologist (J. B. S. Haldane, F. R. S.) says that if we consider any given evolutionary level, we generally find one or two lines leading up to it and dozens leading down.[5]

The average individual, either in India or Europe, has still no suspicion that evolution has no moral purpose at all, or that some of it may be inspired by the Devil. Without harbouring any such suspicion, individuals, groups and whole communities have devised means of fighting evolution, of thwarting the purpose of evolution, or, as we may say, thwarting the Will of God. We do not permit Natural Selection to

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(5) *The Causes of Evolution*, P. 153.

work unchecked. Famines and epidemics are Nature's method of removing the weak—those unfit to survive. But we organise famine relief to keep the bodies and souls of the unfortunate victims of a famine together; we organise medical relief to save the sufferers in epidemics. Whenever an outbreak of small-pox or cholera is threatened, the population in municipal areas is vaccinated and inoculated *en masse.* The Angel of Death is thus kept at bay.

Another example, at the same time economic and biological, illustrating how mankind has learnt to thwart the Will of God, is the fall of the birth rate in Western Europe. It is a most remarkable phenomenon, and full of dangerous possibilities for certain countries. What are its causes? A distinguished German economist, Lujo Brentano, gives an explanation in terms of Gossen's law of diminishing utility. Other direct or contributory causes are the decline in the death rate, decline in the rate of infant mortality, emancipation of women, indifference towards religion and religious commandments (clergymen, generally, have the largest families in Europe), use of contraceptive methods, rise in the standard of living, and town life or urbanisation. Dr. Roderich von Uugern-Sternberg mentions as *causa causans* of the fall in the birth rate among the higher classes '*die streberische Gesinnung*' or social ambition, as we may put it. And he regards social ambition as a product of the capitalist spirit.[6] Capitalism is therefore ultimately responsible for the falling birth rate in western Europe!

Man everywhere seeks to control natural forces where they conflict with the ideals and requirements of a civilised life. This is the real explanation of the fall in the birth rate, of the fight against famines and epidemics, and of human benevolence embodied in orphanages, free hospitals, and

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(6) *Die Ursachen des Geburtenrueckganges im europaeischen Kulturkreis* (Berlin, 1932). Pp. 318-19.

other 'welfare arrangements'. The effect is to oppose a powerful check to the working of Natural Selection.

The economic world shows the same unmistakable tendency. Adam Smith and Bastiat glorified, nay deified the principle of free competition. But, like Natural Selection, free competition is not an unmixed blessing. Love of money is the mainspring of human activity, but not infrequently it produces harmful results. As soon as it is admitted that uncontrolled, unregulated competition, under the influence of money-making motives, may injure individuals and classes and weaken a whole society, Individualism breaks down. Such an admission lies at the root of the collectivist tendency in recent economic thought.

In the preceding lecture we learnt to interpret the phenomena of value (and economic phenomena are largely phenomena of value) in terms of marginal utility. And I suggested in the last lecture that marginal utility, as a determinant of value, is really the utility of the last unit of a good, not to any mythical marginal buyer, but to society as a whole. Is the conception of marginal utility in this sense of any value in understanding the revolt against individualism and the tendency towards collectivism? Collectivism, as we have seen, is a protest against Natural Selection in the economic sphere. Has this protest any meaning in terms of marginal utility?

The two things seem to be entirely unconnected. What has marginal utility to do with the rise of national economies, with the breakdown of the gold standard, with the tendency towards combination, with the emergence of the new system of State control and regulation, and, finally, with economic planning, whether in the fascist or socialist sense?

My answer is that the connection between the two things is of the most intimate character. The protest against individualism or competition is really a protest against the law of marginal utility.

The tendency of economic theory is to explain value in terms of marginal utility. The tendency of economic practice is to prevent value determination in terms of marginal utility.

Let us begin with the protectionist tendency. It is universal. Free trade is dead. Why is it dead?

A market may be local, national or international. In a local market, as for bricks, value depends on the marginal utility of the commodity concerned to society or the local market as a whole. The meaning of society becomes wider when the market is national. In the case of a commodity like wheat value is determined by the utility of the last unit to world consumers taken as a whole.

That was the case before the war, that is, before the transformation of agriculture in the West through the use of power-driven appliances. When the world supply of wheat increased and demand failed to increase correspondingly, the marginal utility of wheat fell and price fell accordingly. The world did not require our wheat any more. Further, if we do not check imports, foreign wheat will sell in India at prices representing the marginal utility of wheat to world consumers. That our own wheat costs more to produce does not matter at all. The effect of the duty on wheat is to create a national market for wheat where prices are determined independently of the world price. Let us, for the sake of argument, assume that the rest of the world is one market for wheat and India another. Protection under such conditions means withdrawing Indian wheat farmers from the operation of the law which fixes the price of wheat according to the utility of the last unit to the world as a whole.

Once the Indian market is separated from the world market, the price of wheat in India would be determined by the utility of the last unit to India, not the world. Social marginal utility acquires a more restricted meaning.

Let us take another example. If no duties were levied on imports of cotton piece-goods from Japan and the United Kingdom, prices would fall heavily. These lower prices would correspond to the lower marginal utility of cotton goods under conditions of unfettered international competition. Protection for the cotton industry means deliberately raising the marginal utility of cloth by restricting supply.

If we may call the marginal utility of a good, when competition is free, 'normal', then the effect of protection is to maintain marginal utility at an artificial level above the 'normal' level.

Do not forget that on the value of goods depends the value of human labour which produced them. If world causes lower the marginal utility of wheat, they lower the marginal utility of the labour of Indian wheat growers. When we protect wheat, in effect we say to the peasants: "Improvements in methods of production have lowered your utility to world society. The object in breaking loose from world economy, so far as wheat is concerned, is to assign to your services a national value which is higher than their international value."

No country thought of breaking loose from world economy before the great war. But now there is Russia with an economy entirely independent of world economy. She has her own levels of prices and wages, which are not influenced by prices and wages elsewhere. A country which has broken her economic connection with the rest of the world, in which production, exchange and distribution are under State control and foreign trade is a State monopoly, may evaluate goods and services as it pleases. New values may be created. Old values which were low may be raised, those which were unduly high may be lowered, or even completely suppressed. Such an economy is a denial *in toto* of the law of competitive marginal utility.

Like Russia, Germany wants to break away from international capitalism. A handy book on National Socialism is that bearing the title *Das ist National Sozialismus*, written in answer to the question *Was ist National Sozialismus.* We are told by the author (E. Huber) that "The sharpest weapon of revolutionary Germany in her struggle for freedom is planned withdrawal (*planmaessige herausloesung*) from the economic bondage of world capitalism."[7] This will be a gradual process. First of all an 'organic transformation' of German economy must be carried out. The aim of German economy must be to satisfy the needs of the German people. Under existing conditions, when German economy is intertwined with world economy, German economy is not fulfilling its primary object.

Nazi Germany has no faith in internationalism. As for international capitalists, the Jews, there is no love lost between them and our Aryan brothers in Germany.

The abandonment of the gold standard by a country is a measure akin to protection but wider in scope—it is designed to encourage exports at the same time that it limits imports. England start ed this movement. The immediate cause of the breakdown of the gold standard in England was the strain on her gold reserves. But it may be recalled that in the years preceding the financial crisis of 1931, while British exports were steadily declining, imports into the United Kingdom were growing at an alarming rate. Every one now recognizes that Britain's return to the gold standard was a mistake. The depreciation of sterling, combined with protection at home and preference in the Empire markets, has led to a revi val of British exports.

The position of countries which are still on gold is one of exceptional difficulty. The maintenance of the gold standard in the midst of countries which have depreciated their curren cies, involves heavy sacrifices. As a Duch writer,

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(7) P. 160.

Dr. Van der Valk, says : "It is not possible to maintain the gold standard and also to continue to enjoy all the advantages of a stable, or only a slightly lower, level of prices and wages".[8] One cannot eat one's cake and have it too. One has to choose between a stable exchange on the one hand and stable prices and wages on the other. "*Of het een, of het ander*"—the one or the other—you cannot have both. Dr. Valk thinks that currency depreciation is child's play (*slechts kinderwerk*) compared to the situation which a Government determined to maintain the gold standard under existing conditions has to deal with.

The international gold standard was an essential part of the pre-war world economy. The international market and the international gold standard go together. Just assume that all countries return to the gold standard. Further assume that all tariff barriers are removed. Under the impossible conditions which I have asked you to imagine, all values everywhere must be international values. The marginal utility of any commodity would be its marginal utility to world consumers. There would be no objection to an international scheme of valuation if the efficiency of labour in different countries were equal. But it is very unequal. The causes partly lie in physical conditions, partly in national characteristics, but chiefly in the use of capital, or material aids to human labour. If the Indian peasant or industrial worker uses simpler tools, his labour will be less effective in producing tangible commodities than that of a European or American labourer or peasant who is supplied with better tools. Given the differences in the efficiency of labour in different countries, unrestricted international competition must work against weaker countries. Hence the attempt to break away from world economy. The erection of tariff barriers is the first step. Currency depreciation is a part of the same process. Protection was extensively employed even

(8) *De Economist*, Oct. 1933, P. 711.

before the war as a measure of self-defence. The almost universal depreciation of currencies was the inevitable consequence of the crisis.

The old gold parities are gone for ever. A return to the pre-war regime of stable world exchanges is not impossible, but the new rates of stabilisation will be such as afford adequate protection to national industries. In other words, the old world economy is dead. It is dead because it was unable to bear the strain of the new productive forces. National economies have come to stay.

We have viewed protection and currency depreciation as a revolt against individualism, laissez faire, or the law of marginal utility in its application to the world regarded as a single association of consumers. What is the significance of the movement towards combination within a country?

In his highly interesting monograph entitled *Individualismus und Collectivismus in der Wirtschaft* Dr. Max Diamant attempts to show that the rise of combinations, whether those of labour or of employers, is a characteristic of periods of contracting markets, while individualism and free competition are characteristics of a period of expanding markets.

During the past five years demand has contracted in an absolute sense. Before the war one could speak of contraction of markets, if at all, only in a relative sense. Cartels existed before the war. The labour movement is, of course, much older—it began in England when British trade was expanding, or when Britain feared no rival. The contraction of markets in the absolute sense since the crisis has strengthened both movements, but it does not account for their origin.

The growth of labour unions and cartels even in times of favourable conjuncture is not inconceivable.

Wages of a given class of labour depend on the marginal utility of labour to society as a whole. When the supply of

labour is excessive, wages are low, irrespective of the level of profits, that is, even when an industry is prospering, or the market is expanding.

The tea industry has been mentioned before. Like other industries, it is, at present, in the throes of a crisis, but it has enjoyed long periods of exceptional prosperity. But wages on tea plantations have always been starvation wages. This is explained by the conditions governing the labour market. The coolies are drawn from various parts of India where there is much surplus labour. There is no cohesion among them, as they speak different languages and are all illiterate. The employers, on the other hand, are powerfully organised, and they have taken steps to eliminate competition for labour among themselves. A dissatisfied coolie cannot leave one master and go to another. Under such conditions the labourer is practically a slave. What he earns depends on the will of the master, not on the level of profits. It was in view of these terrible conditions in Assam that the Labour Commission recommended the fixation of wages on tea plantations in Assam by Statute, or Government action.

Next consider the sugar industry, which has without question made rapid progress during the past two or three years. Neither the labourer who works in the factory, nor the peasant who supplies the factory with cane, has shared in the prosperity of our sugar magnates. The reason is not difficult to understand. When the employer can secure an adequate supply of labour at 5-6 annas a day, representing the marginal worth of the class of labour in question, why should he pay more ? The question of the profits he makes is immaterial. The cane-grower has benefited so little by the expansion of the industry that it is proposed to fix the price of cane for factory sugar by authority.

The very fact that high profits are earned when wages are below the subsistence level may cause labourers to com-

bine. When any labourers combine, they withdraw their wages from the operation of the law of competitive marginal worth.

It is seen that there is no necessary connection between the birth of class consciousness in labour and the expansion or contraction of markets. But it is obvious that in a period of contraction of demand, wages and incomes, labour has a strong incentive to unite in defence of its interests.

The case of cartels is not different. According to Liefmann, the cartel is a reaction against competition. The law of marginal utility assumes free competition. The cartel is, therefore, a reaction against this law. It should be remembered that owing to the use of machinery the size of the business unit has increased. Competition under machine production is a battle of giants. Well, giants have fought, and they do fight, but soon the realisation comes to them that instead of cutting each other's throat they might combine to cut the consumer's throat. The incentive to combine is great when there is danger of over-production, or when effective demand is not increasing at a rate corresponding to the growth of production.

It has been stated that "all attempts to explain the growth of cartels which do not limit themselves to the fundamental fact of the straying of businesses towards marginal cost and invent an inner necessity and inevitability of the origin and development of cartels, have only a limited value".[9]

What is meant by the 'straying of businesses towards marginal cost?' A business may be said to have strayed in that manner when it is unable to sell its products at a price above marginal cost. Businesses exhibit this unfortunate tendency when competition is keen. Combination makes it possible to keep the straying sheep within the fold.

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(9) Tismer quoted by Max Diamant (*Individualismus* etc.) P. 41-2.

In terms of utility we may say that the object of a cartel is to maintain prices at a level higher than the marginal utility of the commodity under conditions of competition.

Protection, currency depreciation, labour movement, and growth of cartels and combinations are thus seen to be different phases of the same collectivist tendency.

LECTURE VIII.

THE COLLECTIVIST TENDENCY IN THE LEADING COUNTRIES.

The last lecture was concerned with the tendency from individualism to collectivism in general. This evening I propose to examine the trend of recent thought on this subject in particular countries. We may begin with England, the most conservative of all countries, and the slowest of all in accepting new ideas.

There is dissatisfaction even in England with the old system under which British trade and industry grew and prospered in the 19th century. The crisis has shaken England's faith in freedom of enterprise. They talk of planning even there. I am not referring to Sir Oswald Mosley, an avowed fascist, but to leaders of thought like Sir Basil Blackett, some time Finance Member of the Government of India, and J. M. Keynes. Sir Basil Blackett holds that "the whole body of laissez faire doctrine, the undiluted individualistic philosophy of Bentham and his school, has broken down, is dead, and ought to be buried". He would substitute for individualism that is dead 'conscious corporative planning'.[1] But Sir Basil Blackett's conscious corporative planning is not an imported commodity, like Sir Oswald Mosley's black shirt; it is genuinely British. It is planning consistent with freedom. The British people are to show to the world that "planning is consistent with freedom and freedom with planning".

Planning consistent with freedom is an entirely new idea. We have heard about socialist planning, and also read about it. It is planning entirely inconsistent with freedom. Russia started planning many years before the First Five Year Plan was conceived. But it is this Five Year Plan that has

(1) *The World's Economic Crisis*, Halley Stewart Lecturers, 1931. Pp. 97—8.

attracted world attention. The Soviet Government claims that the Plan was fulfilled to the extent of 93·7 per cent; critics take a less optimistic view of the Plan fulfilment. While there is dispute about the extent of the Plan fulfilment, there is none about the character of Soviet planning—there is no room in it for freedom of enterprise in an individualistic sense.

Can capitalism plan? If planning consistent with freedom is possible, that would be capitalist planning. Capitalism is founded on freedom of enterprise. To reconcile planning with freedom it has to be shown that a country or government can plan while retaining freedom of enterprise.

I find it difficult to grasp this new idea. Perhaps I am not sufficiently familiar with British conditions and British character to understand how two apparently inconsistent things may be reconciled.

Can we do it in India? Our main industry is agriculture. Can we regulate agricultural production according to plan without abolishing freedom of enterprise?

Suppose we take the view that there is over-production of wheat in India. In a good year we produce about 10 million tons of wheat. But the Sukkhar Barrage will make a substantial addition to the wheat area. At a time when our wheat production is expanding there is no demand for Indian wheat in foreign countries. Suppose, in these conditions, it is desired to restrict the area under wheat. How shall we set about it? We may try to persuade the peasant to sow less land with wheat. But how can we compel him? He is a free man; the choice as to what he will grow or not grow belongs to him. The experiment was tried in the United States, where Government granted compensation to farmers for the losses inflicted on them by the policy of restriction. It failed. Some farmers did as the Government told them; others sowed a larger area, hoping to benefit by the rise of prices which the restriction of

cultivation by others was expected to bring about. In India we can offer no money to farmers as an inducement to obey Government orders. We have no money for the purpose. Then, if the peasant, in spite of definite instructions, chooses to exercise his own judgment in a way which we do not approve, what are we to do to him? Shall we impose fines *en masse*? Shall we send the recalcitrants to prison? That would be to start a new satyagraha movement on a much larger scale than the old.

Secondly, under the existing system, if the peasant makes a mistake he suffers for it. The choice is his and the profit or loss that he makes is his. Under planning consistent with freedom Government will decide what is to be grown and in what quantities. But if Government made a mistake, it is the peasant who would pay the penalty. Let us take an example. There was a phenomenal increase in the exports of linseed in 1933-34, which was due to the failure of the Argentine crop, not to the Ottawa Agreement. We tell the peasant to grow more linseed and less wheat. But it may be found at the end that it was not more linseed but more wheat that the world wanted from us in 1934-35 or 1935-36. Will Govrnment compensate the peasant for losses for which he was not responsible ?

Perhaps you will say that it is difficult to plan for agriculture as it is an industry comprising millions of people, each working independently on a small scale. But industrial planning consistent with freedom is not more easy.

We may group together cement producers or cotton mills in a cartel. The cartel may efficiently control output and prices. But new cement factories and cotton mills may upset the equilibrium between demand and supply. If we legislate against new companies, freedom of enterprise is gone.†

†A good illustration of the difficulties of planning consistent with freedom is furnished by the Indian jute industry. The Associated Mills have deliberately started producing more in order to create a crisis. The object is to compel Government to intervene.

If I can get together the requisite capital, I may set up as manufacturer of sugar, cement, cotton goods, boots and shoes or whatever else I fancy. This is the meaning of freedom of individual initiative and enterprise. In the hope of making profits, I have the right, under the existing system, to risk my capital and the capital of those who trust me. You cannot take away this right without limiting my freedom.

Suppose all businesses are grouped together in syndicates, syndicates in federations, federations in confederations and confederations in corporations, which, finally, are placed under a council presided over by the head of the Government. This is the economic constitution of fascist Italy.

We shall consider the nature of fascist planning and its relation to individual freedom later. But I do not think Sir Basil Blackett had fascism in his mind when he suggested planning consistent with freedom as the way out of the crisis. There was nothing to prevent him from saying that by 'conscious corporative planning' he meant the Corporate State. Fascism was as well known in 1931 as it is to-day. But Sir Basil Blackett suggested planning consistent with freedom as something new, and he did not mention the Corporate State.

We do not know precisely what Sir Basil meant. J. M. Keynes has more clearly foreseen and expressed the natural line of capitalist evolution in the coming years.

Keynes recognizes that private and social interests do not always coincide, and he does not admit that self-interest generally is enlightened, or that "individuals, when they make up a social unit, are always less clear-sighted than when they act separately."[2]

It may seem as if Keynes is arguing in favour of socialization of production, for if private interest can conflict with social interest, and if individuals organised as a society are not necessarily less clear-sighted than when they act separate-

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2. *The End of Laissez faire*, pp. 40-1.

ly, the conclusion is suggested that socialization is not so great an evil as we have been taught it is. But Keynes is not a socialist. He would modify individualism, not destroy it. The State is not to assume the functions of a producer, but it may recognize semi-autonomous bodies which carry on productive activities, not for the sake of profit but in the public interest. Share-holders, as at present, will provide the capital. But they 'must be satisfied by conventionally adequate dividends'. The semi-autonomous bodies will enjoy a semi-monopolistic position and will be subject to public criticism. Keynes prefers semi-autonomous corporations to "organs of the central government for which Ministers of State are directly responsible"[3]. He is therefore not a fascist. The type of corporation that he has in mind is well represented by the Bank of England. It is a private joint-stock company but managed in the interest of the British nation. Considerations of shareholders' dividends are of no importance in the management of the Bank of England.

If all production were controlled by semi-autonomous corporations formed and managed on the model of the Bank of England, Sir Basil Blackett's ideal of planning consistent with freedom will be realised.

The proposal is revolutionary. It lays the axe at the root of individualism. It uproots the whole tree of individualism. Individualistic production is directed by the desire for profit. Money-making motives play the most important part in the organisation of production and sale under the present system. Keynes does not abolish profits, but he reduces them to a dead, uninspiring level. Having provided the capital, shareholders are required to cultivate a certain amount of indifference towards money. The incentive to private gain as the mainspring of economic activity is suppressed.

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3. *The end of Laissez Faire* P. 45.

What guarantee is there, one may ask, that semi-autonomous bodies which enjoy a semi-monopolistic position, will not abuse their power and position? What does experience teach ? The Bank of England is in a class by itself—it is not typical of the ordinary joint-stock company engaged in production. Referring to Keynes's proposal Grazianai says: "Examples from all countries during and after the war show the inconveniences of special autonomous institutions, for which justification may exist in abnormal (lit. pathological) not in normal times"[4].

Indian opinion has a profound distrust of semi-autonomous institutions. Our Government is not a responsible government in a technical sense, but we trust it more than semi-autonomous institutions. This was most clearly shown by the Indian demand for a State-owned and State-managed Central Bank. The Reserve Bank, which will soon begin to function, is a share-holder's bank. It is feared that there may be a conflct of interests within the management of the Bank and that Indian interests may not receive the same consideration which they deserve.

Company-managed railways in India work under strict Government control, but, as in the case of the Central Bank, Indian opinion favours State ownership and State management. So strong is Indian feeling on this question that before giving its consent to the separation of railway finance from the general finances, the Assembly required a definite undertaking from the Government to the effect that the arrangements for separation would hold good only so long as the E. I. R. and the G. I. P. R. and the existing State-managed railways remained under State management.

Indian distrust is not ill-founded. The Acworth Commission found that in the matter of employment in higher grades of service, Company-managed lines had almost entirely

4. *Economia Politica Contemporanea*, Vol. I. P. 41.

ignored the claims of Indians. A more important cause of complaint was unfair treatment of Indian industries. Complaints were made not only to the Industrial Commission but to the Acworth Committee that Indian industries had to pay unfair rates both on their raw materials transported from other parts of India and on their manufactured goods despatched to the various markets. "We cannot believe", wrote the Fiscal Commission, "that these complaints are entirely without foundation"[5].

We have our peculiar reasons for distrusting semi-autonomous institutions. But the question may be put generally: Will share-holders in a regime of semi-autonomous institutions be satisfied with 'a conventional rate of dividends'? And what will become of invention and progress when the stimulus to effort in the shape of monetary gain disappears? This used to be the sharpest weapon in the anti-socialist arsenal. One is reminded of Prof. Hearnshaw's criticism of socialism:

"We ask the socialists what motive to produce they propose to substitute for that private enterprise, that hope of profit, that desire for independence, that passion to provide for wife and children, that ambition to excel in the world, that aspiration for honourable place and creditable power, which have been the main inducements to economic activity up to the present and the chief factor in industrial progress? For under the socialistic regime all these individualistic and competitive motives will be damped down as indecent and disallowed"[6].

Keynes is not a socialist but his proposal in effect damps down as indecent and disallows individualistic and competitive motives. Semi-autonomous bodies, such as Keynes has in view, will considerably limit the field of competition, if not altogether abolish it. Capital content with the conven-

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5. Para 127.
6. *Survey of Socialism*, Pp. 357-8.

tional rate of dividends will be impelled in seeking investment, not by the owner's hope of profit or 'ambition to excel in the world' but a sense of public duty or other equally altruistic considerations. The growth of modern industry has been due to other impulses.

If a socialistic regime will make an end of progress, so will also a regime of semi-autonomous bodies and altruistic share-holders.

Keynes, while he is dissatisfied with individualism, is unable to choose between fascism and socialism. These are the two alternatives before the world. There is no third. Keynes sits on the fence. He would not entrust industry to Government organs in charge of Ministers. And he does not believe in State capitalism. Under certain conditions a seat on the fence is comfortable. But it is not possible to continue to sit on the fence for ever. Particularly when indecision may retard progress or increase confusion, it is necessary to make up one's mind.

To the credit of Sir Oswald Mosley it must be said that he knows his mind. He does not talk of semi-autonomous bodies and philanthropic share-holders but of syndicates dove-tailed into corporations, under the control of a council of industry. The council will co-operate with Government in the direction of economic policy. The policy will be laid down by Government. We are not concerned with British fascism. As a matter of fact I do not think fascism is coming to Britain. Fascism despises democracy, and it is an enemy of individual liberty. The British people, by tradition, love both. Nor will fascist methods appeal to sober Englishmen. The brutal persecution of Jews by Hitler in Germany and the inhuman behaviour of Sir Oswald's Black Shirts in a recent public meeting in England roused feelings of indignation throughout Great Britain. Finally, the fine talk about the ethical character of the fascist State and its recognition of

God as the supreme soverign will leave the average Englishman cold.

Fascism may come to England when the British middle class is completely ruined, or when British labour actually rises in revolt against British capital. These are remote possibilities, not elements of the present situation.

But the fascist movement will influence Britain's relations with the Dominions and India. Sir Oswald stands for Greater Britain. At a time when British export industries are struggling with a crisis, Imperial economic planning, advocated by Sir Oswald, should find many supporters. This aspect of British fascism deserves our attention, for it affects us directly.

Italian fascists are frankly Imperialists. Rome to them is a symbol of Empire. That is why fascists in Italy are 'admirers, exalters' of Rome. They cannot forget that once Rome was 'the centre, the brain, the heart of an Empire'[7]. A new Italian Empire has yet to be created ; but Britain, whatever Mr. John Strachey may say, possesses an Empire of which she may well be proud. British fascism does not seek new conquests but insists on retaining the Empire that Britain possesses. The problem of India is viewed by Sir Oswald Mosley as 'a record of muddle and betrayal.' The White Paper policy, according to Sir Oswald, is a policy of the White Flag, a policy of surrender to India's 'professional agitators.' British fascism is opposed to this policy root and branch. The duty of Britain in India is 'to remain and govern'[8].

Sir Oswald's view of the political relations between England and India makes it clear that one of the objects of British fascism will be to direct the economic development of India in a manner consistent with Imperial requirements.

7. Mussolini, *Discorsi dal Banco del Deputato*, P. 103.

8. *Greater Britain*. P. 140.

"Great Britain," says Sir Oswald, "is primarily a producer of manufactured products ; and the remaining countries of the Empire are still primarily producers of food stuffs and raw materials. A natural balance of exchange exists which could and should be exploited'.[9] His meaning is fairly clear, but still more explicitly he says : "We have failed to promote the development of Indian agriculture and village industry in place of the herding together of the Indian masses in virtual slavery in the new industrial cities, the chief object of which is to undercut Lancashire goods with cheap labour for the benefit of international capital"[10]. What does Sir Oswald mean by 'international capital' ? In Nazi literature the expression means the chosen people, the Jews. Our cotton mills are largely owned by Indian capitalists. I am not a capitalist, but I protest against the identification of Indian capitalists with Jews, or international capital in any other sense.

Italian Fascism.

We next turn to Italy.

Mussolini's denunciation of laissez faire is unequivocal. Laissez faire is 'a suicidal theory'. Mussolini speaks of '*Il Manchesteriano*' with withering contempt.[11] When it is a question of employment or unemployment of thousands of workmen, the State has to assume responsibility and act. It cannot 'imitate the unpraiseworthy gesture of Ponzio Pilato'[12] —or wash its hands of the affair. The fascist regime is not like the liberal regime which let things alone. Fascism 'anticipates and makes provision'[13]. The fascist government claims the right of intervention in all affairs.

9. *Greater Britain*. P. 136.
10. Ibid. P. 142.
11. *Discorsi*, 1927, P. 69.
12. *Discorsi*, 1930, P. 166.
13. *Discorsi*, 1930, P. 209.

This relation of the fascist State to business is a legitimate deduction from the nature of the fascist State. It is a strong State, endowed with the Will to Power. Its aim is to make the nation strong and great. The individual has, therefore, no rights as against the State. All are within the State and no one outside it. Power depends on organisation. The Italian State, therefore, seeks to organise all the forces of the nation, military, economic, moral and religious, for the realisation of its aims. No disputes between labour and capital can be tolerated, for they weaken the State. Strikes and lock-outs have been made illegal in Italy. Labour is a social duty. Fascism respects the right of property, but attaches a duty to property as well: "It is not a selfish possession but rather a good which it is necessary to employ and develop in a human and social sense"[14] Private initiative in industry is retained but the individual is responsible to the State for the management of his business. His business is not his private affair, but a matter which interests the nation. Article 7 of the Charter of Labour says: "The private organisation of production being a function of national interest the organisation (*i. e.* administration) of a business is responsible to the State for the direction of production". This is interpreted to mean four things.[15] (1) Normally the organisation of production is entrusted (*affidata*) by the State to private persons; the State, as Article 9 of the Charter of Labour explains, intervenes in production only when private initiative is lacking or found insufficient, or when the political interests of the nation are involved. (2) The individual has a mandate, or still better a *manus publicum* (public function or duty) for which he is responsible to the State. (3) The producer is not guided by considerations of private gain

14. *Il. Fascismo e l'Italia by* Belluzzo (extracts from Mussolini's speeches and writtings). Libreria del Littorio. Rome. P. 141.

15. Arias, *Economia Nazionale Corporativa* (Roma, anno XII). P. 26.

(*privato tornaconto*) in his economic activity, but, as a mandatory of the State, by those of public interest—he is expected to conform to requirements of public good whenever they are not in harmony with his individual interest (*suo tornaconto egoistico*). Finally (4) in corporative economics the spirit of the entrepreneur (his animus) is quite different from that described by laissez faire economists.

The Charter of Labour speaks of private initiative (*iniziata privata*) not free (*libera*) initiative. Freedom of initiative would have implied lack of control and discipline, or that private initiative was not subject to any restraints. It would be impossible for the Corporations, as Arias points out, to make obligatory rules for co-ordinating production if private enterprise were absolutely free. There is no freedom of initiative in Italy, but private initiative exists as a social duty, as we may say.

We my, next, very briefly review the economic constitution of Italy. It consists of four elements: Syndicates, which may be called primary cells of the economic organism; federations which are unions of syndicates; confederations which are composed of federations as members; and corporations which are central unifying bodies. The Council of Corporations, presided over by Mussolini, builds the top of the economic hierarchy.

A syndicate is an association of employers or employees recognised by the State. It is not necessary for an association to seek legal recognition. But only officially recognised associations enjoy certain privileges and are under State control. Syndicates or legally recognised associations alone have the right of legally representing their trade and their members, of protecting their interests as against the State and other associations, of negotiating collective labour contracts binding on all those comprised in their categories etc. A syndicate, while it has a legal existence, is not a

State organ. It is called '*ente autarchica*', or autonomous body, which is true in the sense that associations are formed voluntarily—otherwise the syndicates are under stringent Government control. The Government may withhold recognition; further, it may, through the Minister of Corporations, veto the resolutions of a syndicate.

A syndicate is an association of the first degree, a federation of the second degree and a confederation of the third degree. A federation may be municipal, provincial or national according to the syndicates of a given area which it federates. A confederation is an association of federations. Thete are 6 confederations of employers and 6 of employees. A 13th confederation is that of liberal professions and arts. The confederations represent all economic interests: agriculture, industry, trade, internal transport and navigation, banking, and maritime and air transport.

Unlike a syndicate, which is formed by the voluntary association of employers or employees, a corporation is created by the State. A syndicate is a juridical body, but a corporation is a State organ. There are 22 Corporations. The first eight deal with agricultural operations, the next eight with industrial operations, and the remaining six with (1) insurance and credit, (2) liberal professions and arts, (3) sea and air transport, (4) land transport, (5) theatres and (6) hotels.

The corporations, as I have said above, are unifying bodies, representing both labour and capital. They are empowered to frame rules for the regulation of conditions of work and for the co-ordination of production through member associations.

The President of a corporation is appointed by the Minister of Corporations.

The Council of Corporations has 150 members and is divided into seven sections. Mussolini thus defined the posi-

tion of the Council in his inaugural address in April 1930: "The National Council of Corporations is in the Italian economic system what the General Staff is in the Army: the thinking brain which plans and co-ordinates." The object of the Council of Corporations is "to augment the power and welfare of the Italian people."

Such is the Italian Corporate State.

Can the Corporate State plan?

As we have seen, while private enterprise in business has been retained in Italy, it is emphatically denied that the individual is free to manage a business in his own way. The State has the right of intervention and this right limits freedom.

But competition has not been abolished and competition and planning do not go together.

While the fascist State cannot plan, it attempts to control all economic activities through its economic organs.

The relation of the fascist State to business is something like that of the Indian Government to company-managed railway lines. It may be recalled that on the question of railway management the Acworth Railway Committee was not able to make any unanimous recommendations. The President and four members of the Committee recommended State management, while the other five members favoured company management. The case for State management, as argued by the President and four of his colleagues, was strong. "Our experience and investigations in India," they said, "have led us to the quite definite conclusion that the system has never worked satisfactorily, and cannot be made to do so." The reason for its failure was that power and responsibility under the system were divided between the Government and the Company. On the Board of each Company there is a Director nominated by Government who has the power to veto any decision of his colleagues. Government control is

enforceable also in other ways. "In a word," wrote the advocates of State management, "the Company does not and cannot manage the undertaking ; it cannot, without the permission of Government, break new ground in any direction. Neither does the Government manage ; it only controls and restraints."

This is Indian experience of industrial management on fascist lines. It is not a happy experience.

How is the system working in Italy ? I do not know. I wonder if any one knows the truth about Italy or Germany. The reason is that in these countries freedom of the press has been completely suppressed and nothing can be published which may show the administration in an unfavourable light.

United States.

In Lecture 11 we tried to understand the theory of the New Deal. We found that President Roosevelt is not working on any single theory, but, like a practical man, is taking practical steps to solve a practical problem. The National Recovery Act has conferred on the President comprehensive powers for the control and regulation of business and he has made an extensive use of them.

The New Deal offers abundant material for the study of fascist methods and practices.

Industry, under the New Deal, is regulated by codes. These codes are drafted by industries and trade associations. But Government, under the National Recovery Act, also prepared some codes and assisted in the preparation of others. A code drafted by an industry must be approved by the President ; further, under the National Industrial Recovery Act, the President has absolute power of modifying any provision of a code. The petroleum code was prepared by Government and imposed on the industry. A code fixes minimum rates of pay and maximum hours of labour and other conditions of work ; it sets up standards for the conduct

of business. A code, in short, is a constitution, approved by Government, for the industry or industries to which it relates. The N. R. A. has placed American industry under absolute Government control. No new machinery can be installed without Government approval. There is a Government administrator of a code. He has no right of voting, but a right of vetoing any decision of the industry — like the Government representative sitting on the Board of a company-managed railway line in India. In the United States Government has not undertaken the responsibility for managing industries—that responsibility rests on capital. But Government has seriously limited it by its right of intervention and veto. Responsibility is divided.

Division of responsibility means loss of efficiency and confusion. So far as I have been able to gather from publications on the New Deal, neither labour nor capital is pleased with the drastic measures of Government control. The New Deal is a method of dealing with an emergency. It is not a permanent economic system.

While industries have their codes, agriculture is directly controlled. The general policy is to restrict production, I have referred to wheat before. The case of cotton is interesting. It illustrates the difficulties of Government regulation of agriculture even where the standard of mass education and general intelligence is high.

The Farm Relief Act (May 12, 1933) empowered the Secretary of Agriculture to enter into contracts with cotton growers to secure a reduction of the yield in 1933 by at least 30 per cent. as compared with 1932. The land which thus became free was not to be used for growing any other commodity. The grower of cotton was given the option to buy cotton from the Secretary, equal in amount to the reduction in his crop, at the average price paid for cotton by the Secretary—the peasant was thus secured against loss from the

restriction of production. The result is thus described by Emil Burns and F. M. Roy, joint-authors of *The Roosevelt Illusion:*

"As regards cotton, the ploughing in of ten million acres cost the Government (ultimately the consumer) 110,000,000 dollars. Unfortunately for Roosevelt's plans, the growers, elated by Rossevelt's own promises of higher prices, took such money as was given to them by the Government and bought fertilisers with it! This and the unpatriotic behaviour of the boll-weevil, which, according to reports, has been 'less active than usual', brought the yield per acre up to 201·7 lbs. according to the Department of Agriculture's estimate of November 1 (1933), as against 173·3 lbs, in the previous year. The result was a total crop 174,000 bales higher than the previous year's crop; and the world's stocks at the end of the 1933 season were 12,547,000 bales as against 12,144,000 bales in 1932. Therefore an even more drastic plan of reducing acreage has been made for 1934; it will cost 126,000,000 dollars—which the consumers will pay in taxes" (P. 26)

Such methods of farm relief are a little too expensive for us. Even the United States cannot foot such heavy bills year after year. The budget deficit of the past three years is estimated at 7,000,000,000 dollars. To this may be added another 1,000,000,000 dollars, the anticipated deficit in the current financial year. The total is equal to over 2,000 crore rupees.

The Government of Bengal deserves credit for devising inexpensive methods of crop restriction. I am referring to the jute restriction scheme, under which no compensation of any kind will be paid to jute growers but it is proposed to spend about Rs. 50,000 in organising an intensive propaganda on a provincial scale to induce cultivators to restrict their sowings in their own interests. It is not improbable that the Special Officer in Bengal in charge of the scheme will grow

into a new Department. In fact, the need for a new Department to deal with crop restriction is already obvious. Bengal wants a jute restriction Department, Punjab a wheat restriction Department and Rangoon and Madras rice restriction Departments. It is clear to every one that it is not a temporary emergency that we have to deal with, but a permanent situation.

The New Deal is fascist in conception and method. It is so described by British and American observers. But there is a difference between American and European fascism. The New Deal recognizes the right of labour to organise and even to strike. There was a big textile strike in the United States in September 1934. Both in Italy and Germany labour unions have been suppressed and strikes and lock-outs prohibited by law.

National Socialism.

Fascism in Germany has striking points of resemblance with the Italian movement. The form of Government is irresponsible dictatorship, as in Italy—the denunciation of democracy by Mussolini and Hitler is equally strong and unqualified. The success of the German fascist revolution is due to the same causes as in Italy—dissatisfaction with the Peace Treaty and defeatist mentality, but Germany has more real grievances against the Allies than Italy. Great Britain and France won both the War and the Peace. Italy won the War but lost the Peace; Germany lost both. Germany, like Italy, has to solve the problem of a rapidly growing population—that of *Volk ohne Raum.* Italy wants to found an Empire. Germany is agitating for the return of her Colonies—she must have room for expansion. In Germany, as in Italy, nationalism and militarism are being preached vigorously. German fascism is born of the need to organise the German people for the coming conflict. Germany must present a united front to the enemy. Hence the suppression of all opposition. Hence the enforced collaboration of labour and capital.

The economic principles of German fascism are the same as those of Italian fascism. The State is unwilling to assume responsibility for production—it therefore recognizes the right of private property and private initiative. But it controls both. In his address to the Reichstag on March 23, 1933 Hitler said:

"Great are the tasks of the National Government in the sphere of economic life. Here all action must be governed by one law: the people does not live for business and business does not exist for capital, but capital serves business and business serves the people. In principle the Government will not protect the economic interests of the German people by the circuitous method of an economic bureaucracy to be organised by the State, but by the utmost furtherance of private initiative and by the recognition of the rights of property".

It is apparent that Hitler has borrowed a good deal from Mussolini, even his shirt, though the colour is different. In a lecture on the German movement, before Hitler's rise to power, Franco Ciarlantini offered to the National Socialists of Germany the sympathy of Italians in their effort to imitate and assimilate all that they considered good and useful in fascism and in adapting it to the requirements of Germany and their own temperament. He recognized their great and frank admiration for Mussolini and spoke of the common romantic elements in both movements: extreme idealism, exaltation of sacrifice, desire of adventure and deification of the Head (the Head is called *Il Duce* in Italy and *Der Fuehrer* in Germany—both words mean 'The Leader'). But there is a difference. In Italy, said Ciarlantini, "the exaltation of the Head has been determined by the fact of the exceptional virtues of the Man, of his Divine qualities (*qualite divinatorie*) of his unmistakable genius, of his whole personality, more than by the instinct of subordination in the fascist masses...."[16]

16. *Hitler e il Fascismo* (R. Bemporad, Firenze, 1933). P. 67.

In Germany obedience to a leader is more of a necessity and a social duty. The two leaders are of course, not of equal rank. Is there any one in Italy or any where else, asked Ciarlantini, who has compared Hitler to Mussolini ? Men of the stature of Mussolini are a gift of Providence. Ciarlantini thought that Hitler was not fit for the role of Dictator. In this he was clearly mistaken. Hitler not only became Chancellor but is now Reichspresident as well —the absolute Dictator of Germany. And he gave evidence of possessing an iron will and grim determination when on his own responsibility he ordered 70 or more conspirators (some of them men of high rank) to be shot without even the semblance of a trial.

Apart from the difference in the two leaders there are differences in ideas. Hitler's idea of race purity is not shared by Mussolini. The persecution of Jews is condemned in Italy. Nor would Hitler's attempt to found a Nazi Church, claiming allegiance both from Catholics and Protestants, arouse enthusiasm in Italy. Italy has no religious problem to solve as Germany. Italy is a Catholic country; Germany has 30 per cent. Catholics and 70 per cent. Protestants. The idea of a single united Church is brilliant but impracticable.

More important for our purposes is the difference in the attitude of Italian fascism and German National Socialism towards capitalism and socialism. Both Mussolini and Hitler are erstwhile socialists. But to Mussolini the word socialism is now an anathema. He calls scientific socialism rubbish [17] but of capital and capitalists he speaks with respect. In explaining Italian syndicalism to the Senate in March 1926 Mussolini said:

"False was that conception of socialism which identified capitalism with definite individuals and implied that these individuals derived pleasure from exploiting the poor proletariat. All that is ridiculous. Modern capitalists are

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17. *Discorsi* 1925. P. 206.

captains of industry, great organisers, men who possess and should possess the highest sense of responsibility, both civil and economic, men on whom depend the destiny, wages and welfare of thousands and tens of thousands of workmen.

"What can these men want? The success of their industry is the success of their nation. Individual enjoyment? But there is a law, and it is this: it is possible to accumulate wealth *ad infinitum*, but the possibility of enjoying it is limited"[18].

Germany takes a different view of capitalists; while opposed to international socialism, she has still a soft corner in her heart for socialism—hence the name of her new creed. The Jews are hated because they are capitalists, and international in outlook. Nazi Germany believes that capitalism was born about the beginning of the 19th century and that Jews were responsible for calling it into being. The capitalist spirit was Jewish and taken from the Talmud[19]. Capitalism is the same thing as Liberalism, which is the same thing as Individualism, which is the same thing as personal greed, and denial of community and responsibility. National socialism may be interpreted to mean National Capitalism. Not that Germany has nationalised capital. But National Socialists insist on the social function of capital, and in this respect national socialism has real affinity with socialism.

CONCLUSION.

Whether we consider the English leaning toward semi-autonomous bodies whose control is separated from the ownership of capital, and which are managed in public interest; or the New Deal in the United States, with its price and wage fixing machinery and the attempt to control production; or the fascist movement in Italy with its insistence on the subordination of individual interest, through an economic

18. *Discorsi*, 1926, Pp. 90-1.
19. *Das Ist National Sozialismus*, (Union Dentsche Verlagsgesellschaft). P. 93.

hierarchy, to national interest; or National Socialism in Germany, with its flat repudiation of individualism and its pronounced sympathy for the social view of capital—it becomes clear that the capitalist system based on the free play of self-regarding motives is dead.

The world is moving towards Collectivism.

Socialism is Collectivism carried to its logical conclusion. Twenty years ago we used to teach socialism as a theory which was not in accord with the individualistic world around us. To-day the difference between a socialist State on the one hand and the German, Italian, or American State on the other, is a difference in degree, not in kind.

LECTURE IX.

PRESENT POSITION OF THE THEORY OF SOCIALISM.

What is the present trend of thought on socialism ?

All socialism is not Marxian socialism. But the socialistic theory of value is pre-eminently associated with the name of Karl Marx. What is the present position of the Marxian theory of value ?

We have made a study of the marginal utility theory and we have seen that this theory is widely accepted by economists. It is not accepted by all, but there is no economic theory which may be said to enjoy that distinction.

Does the acceptance of the marginal utility theory involve the rejection of the Marxian theory of value ?

Opinion is divided on this question. Referring to the Marxian theory of surplus value and the labour theory on which it is based, Albert Aftalion in his *Les Fondements du Socialisme says:*

"Researches of contemporary political economy have led to the definite rejection of this theory of value and have established with increasing success that value depends on utility. The utility theory of value is one of the most valuable acquisitions of economic science and it is winning more and more adherents " (p. 7).

In another place Aftalion refers to the Marxian theory of exploitation as having been 'victoriously refuted' by contemporary science (p. 1).

All utility theorists agree with this verdict.

G. D. H. Cole has attempted a rehabilitation of Marxism, and written a whole book to explain what Marx really meant. Marx, according to Cole, has been misunderstood. The

general abandonment of the classical theory of value (*i.e.* labour theory), according to Cole, does not affect the Marxian system. Cole admits that there is much in the expression of the Marxian theory of value that may be taken exception to, and that some of the secondary doctrines are either invalid or of no importance to-day. But, in general, he maintains, "the Marxian theory of value remains untouched by the criticisms levelled against its fundamental validity"[1].

Cole believes that the Marxian conception of value has nothing to do with prices. Marx concerns himself only with value regarded as a product of labour, and value in this sense has no tendency to coincide with prices. The marginal utility theory explains prices, which Marx does not[2].

But what is the good of a theory of value which is not a theory of prices ? Is it not ' a useless construction in the air'? " As far as Marx's theory of value in itself is concerned", admits Cole, "I am disposed to agree with this view"[3]. Cole's position, therefore, is that while the Marxian theory of value is useless and not worth preserving to-day, there can be no question of its victorious refutation by the utility theory. The utility theory is a powerful attack on the labour theory as an explanation of prices. But Marxian values are unrelated to prices.

This is no sort of rehabilitation of Marxism.

What was Marx's conception of value ?

Marx distinguishes between the use value and exchange value of commodities. Suppose 10 yards of cloth are equal to a maund of wheat. The use values of wheat and cloth are different—there is a difference of quality between wheat and cloth. But because 10 yards of cloth are equal to a maund of

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1. *What Marx Really Meant*, by G. D. H. Cole, P. 248.

2. Cole's Introduction to Marx's *Capital* (Home University Library), P. XXIX.

3. *Ibid.*

wheat, something must be common to wheat and cloth. They are both equal to a third which in itself is neither the one nor the other. " Each of the two, in so far as it represents exchange value, must be reducible to this third."[4]

Now what is this third to which both wheat and cloth can be reduced ? Marx's answer is 'Labour'. Both wheat and cloth are embodiments of labour. Ten yards of cloth are equal to one maund of wheat because the labour embodied in ten yards of cloth is equal to the labour embodied in one maund of wheat.

Suppose we take away use value from exchangeable goods. What remains? " A spectral reality, a mere congealed undifferentiated human labour, that is, expenditure of human labour power, without regard to the form of that expenditure"[5].

Undifferentiated abstract human labour thus forms the substratum of all exchangeable goods, just as in an argumentative school of Indian philosophy Brahm is the universal substance. Here is a table. Forget the name, table. Forget also the form, *rupa*. What remains when *nam* and *rupa* of the table are ignored is Brahm, the real substance of the table and the entire universe. It is not easy to picture to oneself what is left of anything when its *nam* and *rupa* are gone. The reality left as residue is ' spectral ' (*gespenstige Gegenstaendlichkeit*). Such is also abstract human labour, the substance of which economic goods are composed, and in virtue of which one may be equated to another.

A good, says Marx, has value 'solely because abstract human labour has been embodied or materialised in it.' Labour may be measured by its duration—hours, days etc. An obvious objection that a worker who worked leisurely would take more time to produce a thing and therefore create more value than one who worked more quickly is met by the

4. *Das Kapital* (Kautsky's edition) P. 5.

5. *Ibid.* P. 6.

reply that value is determined by 'socially necessary labour-time', by which is meant time "requisite for producing a use value under the extant social and average conditions of production, and with the average degree of skill and intensity of labour." Progress and invention reduce this 'socially necessary labour-time' and therefore lower the value of hand-made goods.

Marx was not worried by the complexity of different forms of labour. He thought that a complex form of labour (*e. g*,, that of a technician) could be equated to a larger amount of a simpler form of labour. "Skilled labour counts only as intensified, or rather multiplied simple labour, so that a smaller quantity of skilled labour is equal to a larger quantity of simple labour."[6]

Value may be expressed in terms of gold and silver, but this does not change the essential character of value. For gold and silver themselves are produced by labour. Marx does not mention paper money, but paper money may be regarded as representing gold and silver.

Marx discussed the relation between value, market price and natural price in a lecture delivered on June 26, 1865 (the first edition of *Das Kapital* appeared two years later) before the General Council of the International. The discussion is of great interest as showing the development of Marx's thought and the extent to which it was influenced by the classical theory.

"The market price", said Marx, "expresses only the *average amount of social labour* necessary, under the average conditions of production, to supply the market with a certain mass of a certain article." But market prices are never stable. As the relation of supply to demand changes, market price may rise above or fall below value or 'natural price'. In spite of these fluctuations, prices of all commodi-

6. *Capital* (edited by Cole), P. 13.

ties, as Adam Smith had explained, constantly gravitate to 'natural price'—'the centre of repose and continuance'.

"I cannot now sift this matter," Marx went on, "it suffices to say that if supply and demand equilibrate each other, the market prices of commodities will correspond with their natural prices, that is to say, with their values as determined by the respective quantities of labour required for their production."[8]

Cole says that value in the Marxian sense is not equated to normal price. In this lecture, at any rate, Marx did equate his value defined as embodied labour, to 'natural price', which only means normal price. He made this point quite clear. Market prices fluctuate around the level of 'natural price', ignoring the effects of monopoly and other restrictions, and this 'natural price' is determined by the labour embodied in a commodity.

The conception of profits as exploitation is based on the labour theory.

Goods are sold at their respective values determined by the labour embodied in them. Profit must be explained taking this for granted. By profit in this connection Marx meant not the gain of individual producers but the permanent and general profits realised in different industries in long periods of time.

The value (in the Marxian sense) of 10 lbs. of yarn, let us suppose, is 15 shillings, consisting of 10 shillings for the raw material (cotton), 2 shillings for the wear and tear of machinery, and 3 shillings for the value created by labour during six hours of work. If the yarn were sold for 15 shillings the capitalist would earn nothing for himself. And, as we have seen, he cannot sell yarn at a price higher than its value, which is 15 shillings. To make a profit the capitalist

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8. *Value, Price and Profit* (published by National Labour Press, London), Pp. 26-7.

forces labour to work for another six hours, paying no wages for this extra work. The value of 20 lbs. of yarn is 30 shillings (20s. for cotton, 4s. for wear and tear of machinery and 6s. for labour). The capitalist actually pays 3s. to labour, retaining 3s. as his profit.

Can profit be regarded as a payment for any work done by the capitalist? "Did I not do the work of superintendence? Is not this work also valuable?" asks the capitalist. His overseer and manager do not 'try to hide their smiles'[9] as a translator of Marx says they do, but 'shrug their shoulders' (*zucken die Achseln*).

This is what Marx said in Part I of *Das Kapital.* He modified his views in Part III, which appeared after his death and was edited by Engels. Marx made a distinction in Part III between constant and variable capital. Variable capital means wages paid to labour; the rest of the expenditure is constant capital. The value of constant capital reappears in the product without any change, but that of variable capital with an addition (surplus value), whose amount is determined by the degree of exploitation of labour. The organic composition of capital varies in different businesses; in the more highly organised businesses the proportion of constant to variable capital is higher. It has however been observed that profit varies according to the amount of constant capital, not according to the number of labourers employed. According to the Marxian theory, profit should be greatest where the proportion of variable to constant capital is highest, for in such a business there are more labourers to exploit, who create more surplus value. Marx attempted to get over this difficulty by limiting his theory to the process of production as a whole, or to total profits earned in a country. In the judgment of most critics this means practically abandoning the concept of surplus value.

9, Translation edited by Cole. P. 187 (Vol. 1).

"How are profits equated in different industries in spite of the different composition of capital? To this question Marx gives no clear answer"[10] says Gelesnoff. Marx's view that the total social product, which the capitalist class as a whole receives, is determined by total surplus value (that is through the general law of value and surplus value) rests on false assumptions and calculations.[11]

Marx's labour theory was a brilliant attempt to find an objective standard of value. It cannot be dismissed as a useless construction in the air. It was an explanation of value. The utility theorists would have taken no trouble to refute it if they had thought that the Marxian theory was not concerned with actual values. They understood Marx to mean that the value of a commodity was solely due to labour and they showed that the doctrine was false. Their own explanation of value was subjective. This they opposed to the objective explanation of Marx. It is obvious that if value is determined by utility the labour theory must be rejected—unless it can be shown that the two theories explain value from different points of view.

Reconciliation of the two theories has been attempted by Tugan Baranowsky and it is of some interest.[12]

Let us take a simple illustration. Suppose that Robinson Crusoe on his lonely island is engaged in making simultaneously woollen and cotton cloth, and that in a day he makes 2 yards of woollen cloth and 4 yards of cotton cloth, devoting 4 hours to the production of each kind of cloth.

The principle of economy requires that the utility of the labour spent on the production of cotton and woollen cloth in the last hour devoted to each shall be equal. Let us call the

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10. *Grunduzuege der Volkswirtschaftslehre*, by W. Gelesnoff (1918) P. 237.

11. *Ibid.*

12. See *WTG*, Vol. I. P. 170. or appendix to Bucharin's *Economic Theory of the Leisure Class* (Martin Lawrence, 1927).

utility produced in the last hour w in the case of woollen cloth and c in the case of cotton cloth. Then

$$w = c$$

There is an inverse relation between w and the quantity of woollen cloth and c and the quantity of cotton cloth produced—*i. e.*, marginal utility decreases as the quantity of woollen and cotten cloth increases. But there is a direct relation between labour involved in production and utility. Utility varies as labour costs.

Has Tugan Baranowsky succeeded in reconciling the two theories? Russian economists, while ardently desiring such reconciliation, answer the question in the negative.

In this example we are concerned with a single individual producing different goods. The labour expended is of the same standard, for it is Robinson Crusoe who is producing both kinds of cloth. Woollen cloth is produced with greater effort and therefore Robinson Crusoe values it more highly. He also values it more highly because he has less of it. Thus the objective and the subjective explanations lead to the same conclusion. But what is true of Robinson Crusoe is not true of society as a whole. As we have seen before, it is not possible to reduce the labour of skilled and unskilled, manual and intellectual workers to a common measure.

If the labour theory is abandoned, the theory of surplus value must go, and with it the Marxian theory of exploitation.

In fact, the utility theory explains the whole of value. And it justifies rent, interest and profit which, according to Marx, are of the nature of theft.

"The rent of land", says Albert Aftalion, "is in itself a perfectly legitimate income, because it corresponds to a portion of value due to land" [13].

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13. *Les Fondements du Socialisme* (Paris 1923), P. 34.

Rent, he explains, is not due to the system of private property. Its origin is not juridical but economic. Land, historically, did not acquire a value because it became private property. It began to be appropriated, or it became private property, because it had become valuable. The growth of numbers rendered land valuable for purposes of production. Hence the origin of rent.

As regards interest, it is due to our preference for present as compared with future goods. Interest, as Boehm-Bawerk showed, is not due to exploitation, or to the institution of private property. The origin of interest lies "in the nature of man, the character and the hierarchy of his desires" [14].

Profit is partly a compensation for risk and partly remuneration of the entrepreneur for his labour in adjusting production to consumption. The entrepreneur creates value by his personal action.

If interest, rent and profit are economic phenomena and necessary payments for the services of capital, land and organisation, labour is not the sole cause of value. Labour is entitled to a share of the product of industry, not the whole of it. The theory of marginal utility assigns a share to each agent according to its marginal need in production. Can anything be more fair or just?

Marxian socialism is dead. The theory of marginal utility killed it.

Socialism has been killed and decently buried not once but several times. *Le Dictionaire d'Economie Politique* wrote so long ago as 1852: "To talk of socialism today is to deliver a funeral oration". That was the first burial. But then up rose Marx — the first edition of *Das Kapital* appeared in 1867. Socialism refuses to be buried. We kill it with arguments, with ridicule, with violence. We take the dead body

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14. *Ibid.* P. 39.

to the cemetery, lay it reverently on the ground and deliver a funeral oration, but just when we are lowering it into the grave of dead theories, up rises the corpse and begins to stalk about the whole earth! The rise of the socialist State in Russia coincided with the victorious refutation of Marxism by the theory of marginal utility. The last five years, particularly, have seen an immense growth of socialistic ideas in the world. Even this country is beginning to feel interested in socialism. No less a person than Dr. Ansari has expressed his conviction that the future Indian State cannot but be based on the principles of socialism, and he described a socialist State as 'a happy consummation' [15]. A new party has arisen within the Congress, that of Congress Socialists. That a large and growing body of men, who have hitherto thought in terms of charkha and khaddar, should suddenly turn socialist is a miracle and a portent.

What are the causes of the world-wide and passionate appeal of socialism ?

Economic exploitation is one of the commonest facts of life and so long as man exploits man, socialism will live again, however often it may be killed by professors of economics and buried.

The fall of the labour theory does not drag socialism with it. Marxian 'value' is a myth, but not economic exploitation.

If values on this earth were governed by labour, all would equally share the curse which sent Adam and Eve out of Paradise. But value is governed by utility. There is no necessary connection between effort and monetary gain. The most painful labour during the longest hours may go unrewarded or inadequately rewarded, while the lightest labour of a most pleasant nature may reap a fortune.

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15. Press interview granted in Bombay on Oct. 6 1934.

There is a revolt against capitalism, not because in this system value is a measure of effort and sacrifice, but precisely because it is not.

Hand-weaving was a prosperous industry before the invention of the power-loom. Exports of cotton goods in the 16th and 17th centuries made streams of gold and silver flow to India from other countries. Marx would have explained the fall in the value of hand-made goods in terms of cost. In terms of utility the value of hand-made goods has fallen because of the great expansion of production due to the use of machines and the consequent fall in the marginal utility of hand-made goods.

Take the peasant. Machines again, have lowered the marginal utility of his work to society, which has brought him to the verge of starvation. Work on the farm is not less arduous in India to-day than it was before the war, but while the peasant made money before the war, he makes little or nothing to-day.

In the case of the hand-weaver and the peasant the cause of the fall in earnings is machine competition. Let us take a different example. We still require domestic servants of flesh and blood. Robots have not yet appeared in India. Let the supply of domestic servants increase. Their wages will fall unless demand increases correspondingly. Domestic servants may have to work even harder than before, and for a lower rate of wages. Greater effort may go with a smaller monetary reward. This is perfectly in accordance with the law of marginal utility.

Further, as the supply of an agent increases, its total contribution to the National Dividend grows, or its total utility to society is greater than before. Let us assume that the number of qualified medical practitioners is suddenly multiplied ten times. They will spread over the whole country. At present the activities of M. B. B. S's are

confined to towns, chiefly cities. As their number grows, they will invade rural areas. The health of the population will be better looked after. There will be less suffering from disease. The rate of mortality may fall; the average duration of life may increase. The material gain to the community from a wide extension of medical facilities will be enormous—improvement of health increases economic efficiency. But while the whole community will gain, doctors as a class will lose. Their marginal utility will fall and their scale of fees will, under the force of competition, adjust itself to their lower marginal utility.

The profession of law is over-crowded and the result of this over-crowding has been a heavy fall in the average income of advocates. The men at the top earn less than before, and the great bulk of the legal fraternity earn much less. The community, however, has gained in the sense that whereas a litigant had to pay 100 rupees for a particular service before, now he pays about half.

Socialism is not only not irreconcilable with marginal utility but finds in this theory its source and chief cause of strength.

The law of marginal utility may be described as a natural law, as it is based on natural impulses. As the amount of a commodity in our possession increases, its marginal utility decreases. Why? Because we are so constituted. And what is true of the individual is true of society as a whole, because society is composed of individuals.

Natural laws work blindly and mechanically. They have no regard for human welfare. The fearful toll of death that epidemics take in India is a natural phenomenon. The most unbearable and heart-rending sight in the world is that of an infant struggling in the embrace of death. It is also a natural phenomenon. In his new book entitled *Scientific Research and Social Needs* Julian Huxley, while describing the progress

in fighting cancer, is incidentally led to remark that if Sir James Jeans (who thinks of God as a mathematician) had carefully considered the mystery of cancer, "he might have been driven to the theological conclusion that God found an interest in meaningless cruelty".[16] Julian Huxley, of course, does not mean what he says. God has nothing to do with cancer, our epidemics, or our high rate of infant mortality. They are natural phenomena. They inevitably appear under given conditions. To master them we have to change the conditions.

The law of marginal utility is as terrible, heartless and inevitable under a given economic constitution of society as Death. The number of agricultural workers in India is excessive. Their average earnings must therefore be low. There is not enough land for all agricultural workers. The competition for land must therefore be keen and the marginal utility of this agent high. The agricultural worker may not earn enough to live comfortably. This is a matter of indifference to the law of marginal utility. Perhaps you will say that his earnings cannot fall below the subsistence level. Marx thought that industrial wages tended to be equal to something more than the subsistence of the worker—that there was a conventional element in wages. But the law of marginal utility recognizes no conventional standard of living. The excess of agricultural labour in India is reduced by famines and epidemics. A law fixing wages according to the conventional standard of living, or even bare subsistence, would be a more humane law than the law of marginal utility.

The socialist, without describing rent and interest as robbery, may object to them on two grounds. First, the unrestricted working of the law of marginal utility may assign disproportionately high shares to rent and interest; second rent and interest are enjoyed by the non-worker.

16. P. 93.

In a preceding lecture I quoted facts showing the proportion of the net income of the land (found without making any allowance for wages and profits of the cultivator) claimed by the landlord in the Punjab as the hire of land. If on an average of good, bad and indifferent years, the landlord's share of the net income in our peculiar sense amounts to over 80 per cent. and that of the tenant less than 20 per cent ; if in an unfavourable year the tenant, instead of earning anything for his labour, actually suffers a loss, while the landlord still gets the stipulated share of the gross produce—if the facts are as stated, then our land system is wrong, whether it is founded on privilege and property or marginal utility.

Next consider interest. When the determination of interest is left to the unrestricted action of marginal utility, interest becomes usury. Co-operative societies were started to soften the rigour of this law. It was found that while the *sowkar* was as essential in the village as the ploughman, for various reasons which are only too well known, he had become an incubus upon agriculture. The Punjab Alienation of Land Act was passed to protect the peasant against land-grabbing on the part of the money-lender. As for rates of interest, they were found by the Maclagan Committee on co-operation to be as high as 36, 48 and 60 per cent. in many places. These rates of interest represented the marginal utility of capital borrowed for agriculture. A part of the interest may be regarded as compensation for risk ; a part of it was the monopolist's gain—no banks were prepared to lend money to the cultivator, and the sphere of operations of co-operative credit societies was strictly limited. There is no question that the money-lender abused his position to exploit the cultivator. The State has come to the rescue of the cultivator. The cultivator cannot now be evicted by a civil court without the intervention of the revenue authority ; his plough-cattle, implements and seed cannot be attached ; his ancestral land is not liable for the payment of his debts unless they are charged upon it ; courts are empowered to examine

and reduce interest charges ; and now it is proposed to effect a reduction of debts by voluntary agreement. These measures amount to an admission that the unregulated action of marginal utility causes exploitation.

The distinction between the worker and the non-worker is important. The worker is indispensable; the non-worker may disappear without causing any dislocation of the agricultural system.

There is economic justification for rent and interest, but not for their appropriation by particular classes.

Conceivably, a wide extension of the system of agricultural banks may completely oust the money-lender from the village. The result will be the same if Government directly took over agricultural finance.

Land can certainly exist apart from landlords.

Even ignoring this aspect of the question, the socialist does not accept a particular level of rent or interest as inevitable because it has been produced by marginal utility. And an enlightened State, agreeing with the socialist, seeks to limit both rent and interest (tenancy legislation, Usury Acts, debt reduction etc.).

No ground exists for supposing that the law of marginal utility automatically secures social justice. It only explains what is. But what is may be thoroughly unjust and oppressive. This is admitted by utility theorists with a broad outlook, even when they do not subscribe to the socialist ideal of justice. Aftalion would combine the advantages of socialism with those of a regime of private property, and so control and direct the play of self-interest as to give the property-less more than what socialism would give them.[17]

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17. Aftalion's *Les Fondements du Socialisme*, P. 306.

The peasant employs himself, but, as we have seen, he is exploited by the money-lender and the landlord. How is employed labour exploited?

We admit that other elements, besides labour, enter into the making of goods. But labour has a legitimate claim to the value it creates. When any portion of this value is appropriated by others, one is entitled to speak of the exploitation of labour.

The employer knows what a given quality of labour is worth to him, and not the labourer. As a rule, wages will not exceed the marginal worth of labour. An employer who paid more wages to his men than what they were worth to him would be speedily ruined.

While wages cannot exceed the marginal worth of labour they may frequently be below it. The reasons are well known.

The exploitation of labour is due to the conditions governing the supply of labour. The labourer is underpaid except when profit is equal to the minimum rate required to attract capital to an industry, and a rise of wages, owing to the consequent rise in the price of the commodity, would cause demand to shrink and drive capital out of the industry.

So far we have considered marginal utility as the one principle of distribution. But more than one principle is at work in distribution. Marginal utility is one. Power is another, both economic and political power.

Think of the wealth produced as lying in a heap. The share of a factor of production depends in a substantial measure on the power of the factor to take away from the common heap what it can and to retain it.

Forty years ago the money-lender dominated rural finance in the Punjab. The cultivator was helpless and the

Government hesitated to interfere. Money-lenders became the richest single class in the Province.

The political reforms of 1921 made landlords the predominant political party in the Punjab Legislative Council. The rule of the money-lender definitely came to an end. Backed by political power, the landlord to-day grabs what he can, in the sacred name of marginal utility or property. But change the composition of the Council. Fill it with representatives of agricultural labour and tenants, and new conceptions of the marginal utility of land and of the function of property will arise.

Privileges of birth, social position, caste, community and race, also affect distribution. To a very large extent the high rate of earnings in particular occupations is due to the high cost of education and training which limits the number of entrants. Marginal utility of such workers is high because the supply is artificially restricted. A poor man's son is handicapped in the race of life from the very start. Equality of opportunity and a wide diffusion of technical and general education would fundamentally alter the whole scale of existing values.

Privileges of caste, community and race are peculiar to India. They are real. The distinction between an agriculturist and a non-agriculturist by caste, as determined by birth, has an economic significance and so has also the distinction by races. I do not go into details, for they are unpleasant. But the facts are generally known and admitted.

Consider the privileged position of Indian public servants. Their salaries bear no relation to what men of similar capacity earn in private service. Two men, A and B, sit for a public examination (we ignore nomination). A beats B by a few marks. A becomes a Gazetted Officer, gets a start of Rs. 250 and in course of time draws a salary of Rs. 1000 or

It is now recognized that capitalism gives birth to classes which are thoroughly anti-socialist *i. e.* bourgeois technicians and intellectuals. Capitalism does not automatically lead to socialism. Socialism has to be consciously and deliberately built up.

Russian experience shows that the first fruits cf a socialist revolution are anarchy in production and a complete collapse of the whole economic system. But, says Iwantzoff, "not less inevitable than anarchy (assuming that the Proletariat possesses the requisite strength of will) is a gradual restoration of the social, political and economic order." [18].

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18. WTG. Vol. IV. P. 355,

Lecture X:
THE CAPITALIST SPIRIT AND RELIGION

The capitalist spirit is the spirit of money-making. Has capitalism a religious sanction?

Recently the subject has been carefully investigated by H. M. Robertson [1] and R. H. Tawney [2]. The discussion was started by a German writer of note Max Weber [3]. The whole of Robertson's book entitled *The Rise of Economic Individualism* is a criticism of Max Weber. Robertson maintains that the Reformation and Capitalism are not connected as cause and effect. In the first place, capitalism existed in the pre-Reformation period. In the 14th and 15th centuries, Venice, Genoa, Pisa and Florence were important and flourishing centres of international trade. Of course, the scale of international commerce then was much smaller than at the present time. Take the case of our cotton industry. "The Coast of Coromandal", wrote Hendrik Brauwer (later Dutch Governor-General of the East Indies) in 1612 to the Directors of the Dutch East India Company, "is the left arm of the Moluccus and the islands round about, because without cloth imported from Coromandal, trade would be dead in the Moluccus". On the other side cotton goods from Cambay provided clothing for the whole of the East African coast. Duarte Barbosa thus refers to the ships from Cambay which he saw at Aden in 1514: "And these ships from Cambay are so many and so large that it is a terrible thing to think of so great an expenditure of cotton stuffs as they bring". And yet, judged by modern standards, exports then were

1. *The Rise of Economic Individualism* by H. M. Robertson, Cambridge, 1933.
2. *Religion and the Rise of Capitalism*, by R. H Tawney, London, 1928.
3. *Gesammelte Aufsaetze zur Religionssoziologie*, Tuebingen, 1920.

small. We do not find it a terrible thing to think of a few hundred thousand pieces. On March 30, 1625 Abbot, Governor of the English East India Company, told a General Court that Indian calicoes "hath found such vent in forreyne parts as if the Company had 100,000 or 200,000 pieces, they would be uttered in a short time". Abbot thought 200,000 pieces a considerable quantity, but to-day we consider an export of 56 millon yards of cotton piece-goods negligibly small. When Indian production exceeds 3,000 million yards, an export of 56 million yards is of little account.

As in India, so in Europe manufacture in the 16th and 17th centuries was based on hand-work. Is it correct to apply the term capitalism to a system of production based on hand-power?

I would say 'Yes'. There is capitalism wherever men work under a master who produces for the market. The craftsmen are not in direct touch with the consumer. They work for wages. The raw material is supplied to them by the master, who alone makes arrangements for disposal of the output. In spite of the growth of machine-production in recent years, weaving and other handicrafts have survived and are maintaining an unequal struggle with the machine. In many cases, even at the present time, the organisation of handicrafts is mediæval. We may call it mediæval industrialism, but it is capitalism all the same. In this sense capitalism is older than Puritanism. Robertson gives two examples of capitalistic enterprise in Europe before the Reformation: the brass industry of the Valley of the Meuse and the cloth industry of the Flanders plain.

The commercial expansion of Europe dates from two events, the discovery of America and that of the passage to India *via* the Cape of Good Hope. The two discoveries created a much wider field for the activities of the manufacturer and the merchant than had ever existed before. The

money-making spirit was not created by these discoveries. It is as old as man. But with the growth of opportunities for making money, the money-making spirit grew. The complex forms of modern economic individualism have gradually evolved from simpler forms. Their origin may be traced back to the capitalistic enterprises of 16th and 17th centuries, and those of earlier date, which were inspired by the hope of profit in the same sense in which the present-day capitalist-employer is inspired by the hope of profit. It will have to be conceded that the spirit of capitalism is not an attitude towards wealth created by religion, but a spirit of enterprise dependent on opportunities for its exercise. We are not surprised that Robertson characterizes the attempt to explain economic individualism in the 16th and 17th centuries in religious terms as 'fantastic'.[4]

It is impossible not to agree with Robertson, so far as the effect of the discovery of new markets on the growth of enterprise is concerned.

On this point there is little difference between Tawney and Robertson. "The development of capitalism in Holland and England in the 16th and 17th centuries", says Tawney, "was due, not to the fact that they were Protestant Powers, but to large economic movements, in particular the Discoveries and the results which flowed from them" [5]. Tawney insists that 'the capitalist spirit' and 'Protestant ethics' were complex phenomena, which excludes a purely religious interpretation of capitalism on the one hand and the possibilty of including under a single theory the medley of different Puritan views as to social policy on the other.

It would be only fair to Max Weber, the chief culprit, to say that he never suggested that capitalism drew its inspiration from a single source. In his famous essay on 'Protestant

4. *Robertson*, P. 206.

5. *Tawney*, Pp. 319-20*n*.

not by prayer only but by action. To that end the individual is to discipline his character. No discredit attaches to the accumulation of wealth, but to its use for self-indulgence or ostentation. The ideal of Calvinism, says Tawney, "is a society which seeks wealth with the sober gravity of men who are conscious at once of disciplining their own characters by patient labour, and of devoting themselves to a service acceptable to God" [13].

I do not feel called upon to take a share in this controversy, nor am I qualified to do so. But it is apparent that a view of the world as real and of the performance of one's worldly duty as a means of glorifying God would act as a strong inducement to money-making. The money-making spirit is imbedded in human nature. But religion may sanctify money-making, and when it does so, it becomes a powerful ally of capitalism.

The doctrine of 'calling' interpreted as "the mediæval spirit of ordered status" was not a progressive doctrine. We are not unfamiliar with this view. The Lord tells us in the Bhagwad Gita that He created the four castes by the different distribution of qualities and actions (*gunkarmvibhagsha*, IV, 13). In III, 35 He has taught that death in the discharge of one's own duty (*dharma*) is preferable to another man's duty (*dharma*): "the duty (*dharma*) of another is full of danger." This is the view of society as 'ordered status.' Duties have been assigned to every one ; let each stick to his duty, and not think of the duty of another. The caste system, as we know, fixed duties by birth. Status as a regulator of economic life becomes a source of social tyranny—it reduces the village labourer to the position of a serf, and creates 'untouchables' who remain 'untouchable' for ever. Is it not significant that the strongest opposition to the removable of 'untouchability'

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13. *Tawney*. P. 105.

comes from the most orthodox sections of the Hindu community? I do not know how the Puritan doctrine of 'calling', interpreted in Robertson's sense of 'ordered status' worked in Europe. But the same doctrine of 'ordered status' has degraded Hinduism.

When 'calling' is interpreted to mean a religious sanction for making money, seriously, soberly and with all the earnestness of men of disciplined character; when self-interest is identified with the service of God, religion becomes a cloak for exploitation. For all we know, the slave-traders may have been pious, God-fearing men. They may have pursued their nefarious trade in the conviction that thereby they were glorifying God.

Max Weber has also written on the Hindu social system and Hindu ethics. The capitalist system is growing and developing in India in spite of the caste system but, in Max Weber's opinion, the caste system could not have given rise to occupational capitalism[14] *(gewerblichen Kapitalismus).* He refers to the conception of 'calling' in Hinduism—it was based on caste and had a traditional meaning, politically, socially and economically. We failed to connect achievement in this world with a Divine sanction. On the other hand, religion taught indifference to the world. This indifference might lead to flight from the world and its temptations. When it did not have that effect, action was still governed by that indifference. The spirit of indifference to the world or money is very different from the capitalist spirit; it is the very antithesis of capitalism.

Max Weber's view of Hinduism is pleasing. Hindu ethics, one is led to think, is superior to Protestant ethics at least in the sense that it is inconsistent with money-making. A philosophy of indifference may encourage a passivity of character tolerant of injustice, oppression and political sub-

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14. *Weber*, Vol. II. P. 111.

jection; it may kill the spirit of adventure, enterprise, discovery and invention. Indifference to the world, taught by religion, may thus produce ruinous consequences. But it cannot produce capitalism. There is no identification of self-interest with the service of God, no deification of money-making motives.

Hinduism does not sanctify money-making, but for my part, I am unable to see why Hinduism should be inconsistent with capitalism.

Human nature in India is not different from human nature anywhere else. We love money precisely in the same way as any one else, and have always done so.

Under the Moghul kings, both Hindus and Mohammadans went to distant countries to seek wealth. Long before that, trade existed between India and other countries; Hindus even founded colonies—one might speak of a Greater ancient India as one speaks of Greater Britain to-day. Empires are founded, markets created and international commerce carried on, not by saints and sadhus but by men of affairs, who take an eminently practical view of the world and money-making.

Take our businessmen in the 16th and 17th centuries. How did they strike foreigners? Did they produce the impression on a Bernier or Tavernier of men who did not care for profit, but pursued their calling in a spirit of non-attachment? No. They were sharp businessmen. Referring to Indian money-changers Tavernier said: "The Jews engaged in money-matters in the Turkish Empire are usually considered to be exceptionally able, but they are scarcely fit to be apprenticed to the money-changers of India."

Capitalism in a primitive form existed in ancient India, if one may judge from regulations about weavers and other artisans given in Kautilya's *Arthshastra*. Weavers were supplied with threads for weaving cloths. The threads were soaked in rice gruel so that their weight increased in the pres-

cribed proportion of 10 to 11; when the increase in weight was less, the weaver was punished. Artisans were expected to fulfil their engagements in regard to time, place, and form of work, and penalties were prescribed for breaking an agreement, except in 'troubles and calamities'. Attempt was made to control the profit of merchants—for local commodities the approved rate of profit was 5 per cent, and for foreign produce 10 per cent, above the fixed price. Merchants who raised prices and realised greater profits were heavily fined. Nor were monopoly and speculation unknown. One of the regulations imposed a fine of 1000 *panas* on "merchants who conspire either to prevent the sale of merchandise or to sell or purchase commodities at higher prices." Lending money on interest was permitted but not usury. A creditor who sued for four times the amount lent by him was punished with a fine equal to four times the unjust amount. In exceptional cases courts did not allow interest to accumulate : interest on debts due from persons engaged in sacrifices which took a long time, from students detained in the houses of their teachers, and others who were minors, or too poor.

It is legitimate to infer from these regulations that they were meant to control the economic activities of workers, traders, money-lenders and capitalist-employers whose attitude towards wealth was the same as that of businessmen in India to-day.

Consider now the more fully developed capitalism of the present time. Max Weber says:

"Under British rule and a direct, strong inducement modern occupational capitalism (*gewerbliche Kapitalismus*), particularly the factory, has made its appearance in India. But—comparatively speaking—to what a small extent and with what difficulties! After many hundred years of British rule, there are at present about 980,000 factory workers, that

is about 1/3 per cent of the total population. And then recruitment of labour is difficult even in factory industries with the highest wages; only the latest Factory Act has made factory work somewhat popular" [15].

According to the census of 1931 there were 1½ million factory workers in 1930 in British India out of a total population of 271½ millions, or about 0·6 per cent of the total population.

Why has the progress of modern capitalism been so slow in India? Is it due to the 'Geist' or spirit of the caste system, as Max Weber says?

Max Weber judged our caste system from a distance. And he did not know that the influence of British administration, in the past, at any rate, has been unfavourable to the development of manufacturing industries in India. It is not the caste system that has hindered the growth of factory industries but Government policy. The war brought a change, and in post-war years Government, both directly and indirectly, have assisted industrial development. But it was only in 1924 that we adopted the policy of discriminating protection. And even now there is no planned development of industries. We are concentrating on consumers' goods, almost entirely neglecting key industries and producers' goods. It is as if a man in building a house insisted on building the top storey first and laying the foundations last of all. The whole superstructure of our industrial capitalism rests on a weak foundation, and Government know it. The change in the fiscal policy of the British Government and fiscal necessities in India are largely responsible for the abandonment of the pre-war free trade policy. Such industrial development as took place before the war owed little to Government policy. In recent years the pace of industrialisation has quickened, but even now there is a feeling that India should not be encouraged to manufacture goods which Great Britain can supply.

15. *Weber* II, P. 112.

Max Weber was wholly mistaken as to the causes which have obstructed the growth of industrial capitalism in this country.

The caste as an economic factor is not of much account to-day. Men of different castes work together in factories. The Indian factory worker is drawn from the village. He still prefers village life, because of the attractions of village life and the repelling conditions of work in factories in over-crowded towns. Caste is no bar to factory work. In fact, at the present time, there is so much surplus labour in the villages that, provided more factories could be set up, the number of factory workers could be increased to any figure we chose. The factory worker does not earn high wages, but he earns much more than the peasant in the village.

The 'spirit' of the caste system is not in conflict with the spirit of capitalism. Caste does not teach any one to be indifferent to money. On the other hand, capitalism has made it possible for caste-Hindus to engage in occupations which they had neglected before. I still remember the sensation caused in the Hindu community of Lahore about a generation ago when the first Hindu boots and shoes shop was opened there. There is nothing to prevent a Hindu from owning shares in leather tanneries and boots and shoes factories. He may manage such concerns. Public opinion will not tolerate a Hindu's association with cow slaughter. But that is about all that a Hindu may not do. Scavenging is taboo, but scavenging is not organised on capitalistic lines.

Capitalism has not affected Indian agriculture; our farming is small-scale farming. But Hindu capitalists finance the agriculturist. No rules of caste and no spirit of the caste system have ever prevented the Hindu money-lender from exploiting the necessities of the borrower. There are Hindu landlords in the Punjab and other parts of India. In agriculture the spirit of capitalism is represented by the landlord

and the money-lender. Caste and religion have nothing to do with interest and rent.

Our business dharma or *All-Tags* dharma, the religion of our daily lives, is not inconsistent with capitalism. But the spirit of religion, whether you take Hinduism or Mohammadanism, is different. It is definitely anti-capitalistic. The spirit of religion is the spirit of saints, and it is impossible to think of a Hindu or Mussalman saint as a captain of industry. On the true spirit of Hinduism or Islam one may found socialism and communism, but not capitalism.

The Bhagwad Gita teaches both a philosophy of action and of indifference to the world. To the yogi or *Gunatita* a lump of earth, a stone and gold are the same (VI, 8 and XIV 24). One of the marks of Gyan is "unattachment, absence of self-identification with son, wife or home" (XIII, 9). While attachment or the performance of actions with the desire for fruit binds or leads to rebirth, one who acts abandoning attachment is unaffected by sin as a lotus leaf by water (V, 10). Both the Bhagwad Gita and the Upanishads teach a high idealism. Salvation, which means escape from the cycle of birth and rebirth, is attained not through the world, but by its renunciation, Where is the orthodox Hindu who does not believe in reincarnation? Where is the orthodox Hindu who does not believe that so long as there is the slightest attachment to the objects of the senses, rebirth is inevitable. Moral perfection and spiritual progress to a Hindu therefore mean action without the desire for fruit. One may engage in worldly activities, one may found a family and carry on a business, but without attachment, or from a sense of social duty alone. The glorification of God through the diligent pursuit of one's 'calling', and action without the desire for fruit, are two different ideals. The one sanctifies money-making; the other regards it with contempt.

One is reminded of an incident in the life of Guru Nanak. As a boy he was entrusted by his father with a sum of money

for trading. What did he do with his talent? He gave it away in charity. That was Guru Nanak's idea of investment. Such is the spirit of religion.

Northern India has produced a saint who is remembered in Lahore by many persons—I am referring to Swami Ram Tiratha. He was Professor of Mathematics in the Forman College, but with the realisation of Self came renunciation. Swami Ram became a sanyasi and wandered about the earth, without a home, preaching other-worldliness and renunciation. His disciples have collected some of his discourses, delivered in India, Japan and America, and published them in book form (*In Woods of God Realisation*, 2 vols.). Swami Ram once spoke on the 'Spirit of Religion'.[16] Is it the spirit of acquisition? Swami Ram regarded property as a 'huge joke'.[17] "Godhead is your property" he said in a 'Forest talk', "but the house in which you live or jewellery can never be your property." The sense of 'mine', he taught, was contrary to the spirit of religion, and he related a story to illustrate his teaching. A poor, old woman died in a famine. Now we are told that the balance of good and bad deeds on earth determines our state after death. The old woman had once given a carrot to a beggar, and this act of charity turned the scale in her favour. The same carrot mysteriously appeared; the old woman caught hold of it and began to ascend to Heaven. "There appeared the old beggar", continued Swami Ram, "He clutched at the hem of her tattered garment. He began to be elevated along with her. A third candidate for mercy began similarly to be uplifted, being suspended from the foot of the beggar. Nay, a long series of persons, one below the other, began to be drawn up by that single Carrot Elevator. And, strange to say, the woman felt no weight of all these souls hanging from her."

16. Vol. II. P. 237 et seq.
17. Vol. II. P. 337.

The carrot rose higher and higher until the procession of souls reached the gate of Heaven. Here the woman looked down, and observing the train of souls, waved her hand and exclaimed: "Be off. This is my carrot." All of them fell, including the old woman.

In the vocabulary of true religion the word 'mine' has no place, or property has no meaning.

Is the spirit of Islam different?

In a work entitled *Islamisme et socialisme*[18] Dr. Mouhssin Barazi has argued that Islam is incompatible with socialism and is to be classed with economic individualism, while its aim, none the less, is the good of the society and the welfare of humanity. But the spirit of economic individualism is not the true spirit of Islam. There is a formal Hindu religion which justifies caste distinctions, the institution of property and inheritance, and economic practices which are identified with individualism. But this is not the religion taught in our sacred books. This is not Hindu ethics. Similarly there is a formal Islam which recognises private property as the basis of economic relations and which is opposed to equality in the distribution of wealth. But formal religion and the spirit of religion are two different things.

Study the lives of Mohammadan saints. Open *Tazkarat-ul-Aulia* at any page and read. The saints, one and all, were not interested in this world. Their lives were a negation of individualism and the individualistic spirit. It is related of Hazrat Ibrahim that he used to earn a living by daily labour. Every day he would work till nightfall, and spend what he earned, not on himself but his friends. One day it so happened that he was not able to return to his friends till late in the evening. They said among themselves: "We cannot wait so long. Let us buy food, eat it and go to bed, so that in future he returns earlier." When Hazarat Ibrahim

18. Paris, 1929. Pp. 91-2.

returned, he found his friends asleep. "Ah," he said, "my poor friends have gone to bed hungry." He immediately made a fire and began to knead flour to make bread. The noise awakened his friends, who now realised their selfishness and felt thoroughly ashamed.

Tazkarat-ul-Aulia relates an interview between Sheikh Abul-Hassan Kharqani and Mahmud Ghaznavi which took place in the Sheikh's monastery. At the end of the interview Mahmud ordered a bag of gold to be placed before the Sheikh and said, 'Take it.' The Sheikh placed barley-bread before the King and said, 'Eat it.' Mahmud took a piece but could not swallow it—it stuck in his throat. The Sheikh thereupon remarked:

میخواهی کہ ما را ایں بد رہ زر تو نیز در گلو بگیرد - بگیر کہ ایں را طلاق دادہ ایم - محمود گفت چیزے قبول کن - گفت نکنم -

As their lives show, Muslim saints were not averse to the performance of manual labour. There are examples of Muslim kings who earned their living, in spite of their royal dignity, by manual labour.

Many are the verses in which Sufi poets have taught indifference to the world:

جہاں را نیست هستی جز مجازی سراسر کار او لهوا ست و بازی

"The world is not real. It is a play," or as a Hindu would say, "It is maya." The author of *Gulshan-i-Raz* regarded the world with contempt:

بدوناں دہ مر ایں دنیا غدار کہ جز سگ را نشاید داد مردار

"Leave this unfaithful world to the mean, for carrion is thrown only to dogs."

Attar asked کار دنیا چیست "What is worldly activity?" The answer is بیکاری همه "Doing nothing." And what is idleness? It is bondage:

کار دنیا چیست بیکاری همه چیست بیکاری گرفتاری همه

That being his view of worldy activity, it followed that salvation lay in turning one's back on the world :

تا نہ گردانی ز ملک و مال روے یک نفس ننمایدت آنحال روے

"Unless worldly possessions are abandoned, that condition will not be attained even for a moment."

Jesus is supposed to converse with an anchorite living in a cave. What was the world to him ? یک برگ کاہ "a blade of grass."

جملۂ دنیا بہ نانے مے دھم نان بہ سگ چوں استخوانے مے دہم
مدتے شد تا ز دنیا فارغم نیستم من طفل بارے بالغم

. . . "I give the world for a loaf and the loaf I throw to a dog as a bone. It is long since that I gave up the world. I am no longer a child but a grown up person."

"What is the world ? " asks Maulana Rum, and himself gives the answer : "Forgetting God and identifying oneself with worldly goods, and wife and children" :

چیست دنیا از خدا غافل بدن نے قماش و نقرہ و فرزند و زن

The great Maulana has defined his attitude towards wealth, desire for rank and social ambition in the following and numerous other verses :

گر برد مالت عدوے رہزنے رہزنے را بردہ باشد رہزنے
چہ بود آن بانگ غول آخر بگو مال خواہم جاہ خواہم آبرو
از درون خویش ایں آوازھا منع کن تا کشف گردد رازھا

" Should a thief steal thy goods, a thief has carried away a thief."

" Say, what is the meaning of this ghoul's cry, 'I want wealth. I want position. I want honour.' "

" Pay no heed to such cries from within, so that secrets may be revealed to thee."

Sufi poets look on the world as زندان , a prison, just as the Vedantist regards action with the desire for fruit as a

cause of bondage. As in the Bhagwad Gita so in Sufi poets real freedom means indifference to the world.

Renunciation as taught by Sufi poets and in the Bhagwad Gita is the negation of life. We are told not to face the trials and temptations of life but to fly from them

چون بود این آتش سوزندهٔ تیز   شیر مردی گر ازو گیری گریز

Or as Attar has said:

گرد ہستیہا ز دامن روفتم   پاے همت بر دو عالم کوفتم

The world is a blazing fire and courage consists in running away from it. Well, if following Attar's counsel, every one ran away and hid himself in a forest or buried himself in a desert, there would be an end of the world. This is not a view of renunciation which will appeal to practical men. Renunciation as a means of escape from the cycle of birth and rebirth is not more attractive. In the first place, one is not quite sure whether there is reincarnation. Then, if it is true that one is born again and again until *moksha* is attained, provided the memory of one *janma* is not carried into the next, reincarnation is not worth worrying about, for a different individual, for all practical purposes, is born each time.

Renuniciation in our scriptures has been connected with salvation. But it is possible to take a practical view of renunciation. We may not leave the world. But, while living in the world, we may enjoy its goods with renunciation —*ten tyakten bhunjitha*, as the Ishavasya Upanishad teaches. *Nishkam karm* of the Bhagwad Gita amounts to the same thing.

Renunciation in this sense is a high social ideal. It implies a higher standard of social justice and greater well-being of the masses.

How can this practical ideal of renunciation be realised? Surely not through the individualistic regime which exists and glorifies some of the basest impulses of human nature.

I do not believe in the fascist ideal of social justice. It means little more than collaboration of labour and capital on terms dictated by capital. Mussolini, indeed, has proclaimed that capital exists for public good. But his theory of the social duties of capital is accompanied by the naive belief that those who accumulate wealth, owing to the ownership of capital, derive little pleasure from such accumulation. Why should they be forced to practice renunciation? The possession of wealth is in itself evidence of a spirit of renunciation!

Keynes's ideal of semi-autonomous corporations managed in the public interest is attractive. For if shareholders can be found who are satisfied with a conventional rate of dividends, and if managers and directors of such corporations are inspired by motives of service in the discharge of their duties, the corporations may become the means through which the profits renounced by the rich may flow into the pockets of the poor. But Keynes's proposal assumes a voluntary renunciation of profits by the capitalist class. Now possibly the British people live on a higher moral plane than we do in this country, or they represent a higher type in moral evolution. Keynes knows the British people and British capitalists. We know only those among whom we live. My own experience of human nature has not made me an optimist. Man is a self-seeking, money-grabbing brute. Nature has made him an Imperialist and exploiter. He has good points, but they have to be brought out. Force him to be good and just and he will become good and just. Leave him to himself, and he will return to his nature.

Mahatma Gandhi's faith in human nature is touching. He does not believe in Western socialism, but hopes to evolve an "indigenous socialism of the purest type." "Socialism and communism of the West," he recently said to a deputation of landlords of the United Provinces, " are based on certain

conceptions which are fundamentally different from those of our own. One such conception is their belief in the essential selfishness of human nature." Mahatma Gandhi does not subscribe to this belief. He hopes to persuade landlords to turn over a new leaf in their relations with ryots. And he said to the deputation : "I do not think you can have any possible objection to holding your property for the benefit of ryots."

The answer of the landlords to this interesting question is not known. But it is immaterial. Give me half of Chandni Chawk and 100,000 acres of the most fertile land in the country and then ask me : "Have you any objection to holding your property for the general good of the public." I will say 'None at all,' and pocket all the rents which marginal utility may produce.

The socialist ideal is the ideal of renunciation by all for the good of all. Socialism is compatible with the highest idealism of Hinduism and Islam. What it is not compatible with is religion which identifies self-interest with the service of God, with property and privilege, and with exploitation. Is this the meaning of religion ? Is such religion worth preserving ?

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